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No. _____

In The

Supreme Court of the United States

October Term 1995

DUNCAN McCOY, ALEX DORSETT
and ALEX-DUNCAN SHRIMP CHEF, INC.

Petitioners,

v.

MITSUBOSHI CUTLERY, INC.

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Does the failure of a patentholder to pay the obligation of a third party to the patent infringer destroy the patent and trademark rights of the holder and constitute a new and non-statutory defense to an infringement action?

2. Can a license to sell patented and trademarked goods within the United States be implied beyond the limits necessary to make the alleged contract effective and in the face of the express refusal of the holder to agree to such a license other than for areas outside the United States?

3. May a Court of Appeals properly find an implied license as an infringement defense when it has not been pleaded in the trial court by the Defendant nor asserted on appeal?

4. If there is an implied license to resell, must it be exercised in a commercially reasonable manner, and may a U.S. Court of Appeals disregard the state law making such a requirement and the jury finding that the infringer here failed to comply?

5. Does the infringement defense newly created by the Court of Appeals, if proper, constitute a defense not only against infringement but also against state law claims of unfair competition and intentional interference with potential contracts with customer and prospective business relations?

LIST OF PARTIES AND RULE 28.1 LIST

The parties to the proceedings below are Duncan McCoy, Alex Dorsett and Alex-Duncan Shrimp Chef, Inc., Plaintiffs and Appellees below and Petitioners here, and Mitsuboshi Cutlery, Inc., Defendant and Appellant below and Respondent here. Admiral Craft Equipment Corp. was an original defendant in the trial court but dismissed by reason of settlement.

No affiliates of the corporate parties within the Rule are known.

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Petitioners Duncan McCoy, Alex Dorsett and Alex-Duncan Shrimp Chef, Inc. respectfully pray that a Writ of Certiorari issue to review the Opinion and Judgment of the United States Court of Appeals for the Federal Circuit, entered in the above entitled proceeding on October 4, 1995. The opinion of the United States Court of Appeals for the Federal Circuit is reported at 67 F.3d 917 and reprinted in the Appendix to this Petition at pages A-1 - 18, and its judgment at page A-19.

The Memorandum and Order of the United States District Court for the Southern District of Texas is reprinted to the Appendix to this Petition at pages A-36 - 38.

JURISDICTION

The jurisdiction of the Court of Appeals was based on 28 U.S.C. § 1295(a)(1). Motion for Rehearing was denied on October 30, 1995.

The jurisdiction of this Honorable Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

35 U.S.C. § 282 provides in pertinent part:

> The following shall be defenses in any action involving the validity or infringement of a patent and *shall be pleaded*:
>
> (1) Noninfringement, absence of liability for infringement or unenforceability,

> (2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,
>
> (3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title.
>
> (4) Any other fact or act made a defense by this title. (Emphasis ours).

Texas Business & Commerce Code, § 2.706(a) provides:

> (a) Under the conditions stated in Section 2.703 on seller's remedies, the seller may resell the goods concerned or the undelivered balance thereof. *Where the resale is made in good faith and in a commercially reasonable manner* the seller may recover the difference between the resale price and the contract price together with any incidental damages allowed under the provisions of this chapter (Section 2.710), but less expenses saved in consequence of the buyer's breach. (Emphasis ours.)

STATEMENT OF THE CASE

Jurisdiction of the District Court was based on 28 U.S.C. § 1338(a) and (b), 28 U.S.C. § 1332, 28 U.S.C. § 1331, and ancillary and/or appendant jurisdiction principles, there being complete diversity of citizenship between Plaintiffs and all Defendants and the amount of controversy exceeding $50,000.00 excluding interests and costs and the case arising under Federal patent and trademark laws.

Petitioners, as Plaintiffs, brought this suit against Respondent Mitsuboshi Cutlery, Inc. for federal patent and trademark infringement claims and state claims of unfair competition, interference with potential contracts with customers, and interference with business relations. Appendix A-39 - 60.

The controversy concerned the shrimp knife invented and patented by Plaintiffs which can peel, devein and butterfly a shrimp in one motion, U.S. Patent No. 4759126, granted July 26, 1988. In the connection with the knife, Plaintiffs registered a shrimp design on July 28, 1992 (Registration No. 1702878) and a trademark logo on March 19, 1992 (Registration No. 1687589). Alex-Duncan contracted with Mitsuboshi to manufacture its knives, ordering and paying for 123,708 knives, and paid for the tooling necessary to make the knives and have the patent number imprinted on the blade. Joint Appendix in Ct. App., pp. 800, F.14, line 20 – 800 F.15, line 7; A-70.

Alex-Duncan thereafter placed another order with Mitsuboshi for 150,000 knives, P.O. 2491, but later cancelled the order before Mitsuboshi had begun manufacture. J.A. 802.6, line 14 – 802.8, line 21; 802.9, lines 22-24; A-73 - 75. An independent and separate corporation, A.T.D. Marketing, a distributor for the knives, J.A. 802.3, line 2 – 802.5, line 2, A-70 - 72, then contracted with Mitsuboshi for the 150,000 knives. No authorization was given by Alex-Duncan to A.D.T. to order or to Mitsuboshi to manufacture the knives for A.D.T., and no payment was received by Mitsuboshi from A.D.T. prior to manufacturing this batch of knives, although previously Mitsuboshi had not manufactured knives for Alex-Duncan

until Alex-Duncan had paid for each order with letter of credit or cash. J.A. 802.8, line 22 – 802.9, lines 1-5, A-75.

After Mitsuboshi was unable to obtain payment from A.D.T. through extensive exchanges of communications, it turned to Plaintiffs. In correspondence back and forth, Alex-Duncan prepared and signed a proposed resell agreement allowing resale only outside the United States. Mitsuboshi prepared and signed one which would allow it to resell within the United States, but neither signed the proposed agreement proposed by the other. Alex-Duncan did agree to purchase and pay for 20,160 of the knives manufactured for A.D.T., and did so. J.A. 810.9, line 20 – 810.10, line 7; A-76 - 77. However, there never was any agreement by Alex-Duncan to take or pay for the other 120,840 knives of the A.D.T. contract, J.A. 802.8, lines 19-25; 810, lines 5-23, but Mitsuboshi recognized in writing that it needed permission from Alex-Duncan to sell the knives to anyone else in the United States and sought such permission. PX-46, J.A. 592.344; A-82 - 83.

Plaintiffs did wish to continue a relationship with Mitsuboshi and the negotiations were entered into for that purpose, but no agreement was ever reached as to the rest of the knives.

While negotiations were still continuing between Plaintiffs and Mitsuboshi, Mitsuboshi began selling the remaining knives to Admiral Craft, a mail order and close-out center company in Flushing, N.Y., on August 10, 1992. Admiral Craft sent out thousands of catalogs offering the knives at prices from $1.60 each to $2.20 each, Plaintiffs having nationally advertised them at $9.95 each. Mitsuboshi sold knives as low as .68 each to Admiral

Craft, and was aware that Admiral Craft would sell the knives at discount prices throughout the United States. Mr. Oka, Executive Vice President of Mitsuboshi Cutlery, Inc. testified that Mitsuboshi knew the knife was patented and trademarked in the United States when the sales were made to Admiral Craft and that Plaintiffs never gave permission to Mitsuboshi to sell knives in the United States.

Testimony showed that Plaintiffs' established customers were upset by the advertising and sale of the knives at far below what they had been paying Plaintiffs, whose business reputation was damaged and who were essentially put out of business. The case went to trial on August 1, 1994, with the jury returning its verdict on August 5, 1994. A-20 - 26. The jury found that Mitsuboshi infringed the patent and trademarks of Plaintiffs and did so willfully, that Mitsuboshi was guilty of unfair competition, intentionally interfered with potential contracts of Plaintiffs with its customers, and with potential and prospective business relations, and that Mitsuboshi did not act reasonably in an attempt to mitigate its damages when it sold the shrimp knives to Admiral Kraft. It found a breach of contract by Plaintiffs for the sale of knives from Mitsuboshi, but the findings in that connection were not supported by the evidence.

On the basis of the jury findings as to damages, judgment was entered for $60,000.00 for patent and trademark infringement, plus enhanced damages of $120,000.00, $235,395.50 in attorneys' fees, and $7,691.32 in costs and expenses. In addition to such recovery on the federal claims, Plaintiffs were awarded $429,337.00 in actual damages on its claims of unfair competition and

tortious interference with prospective business relations, as well as $1,750,000.00 in punitive damages, in connection with the state law claims. Mitsuboshi was awarded an offset of $89,337.00 on its breach of contract counterclaim for nonpayment by Plaintiffs for 129,840 knives out of the order of 150,000 knives that Alex-Duncan had originally made but then cancelled.

Mitsuboshi appealed, and the Court of Appeals for the Federal Circuit reversed and rendered in its favor, and overruled Motion for Rehearing.

REASONS FOR GRANTING THE WRIT

As the Court of Appeals opinion itself recognizes (A-4), the legal question of whether the alleged breach of contract by the patent and trademark holder abrogates his intellectual property rights in the knives was a question of first impression in that court, and as far as we are aware, neither this Honorable Supreme Court nor any other U.S. Court of Appeals has dealt with that question or held that a money debt on the part of the holder defeats his claims against an infringer, despite the long existence of the patent and trademark laws. The Court of Appeals thus creates a field of doubt that should be resolved by this Honorable Court.

Indeed the Court of Appeals may well have usurped in effect the power exclusively granted by Article I, Section 8, Clause 8, of the Constitution to Congress to legislate on patent law and delineate patent rights. A state has no power to pass a law directly effecting a patent right conferred by Congress. *Sears, Roebuck & Co. v. Stiffel Co.*,

412 U.S. 546, reh. den. 414 U.S. 883; *Commonwealth v. Petty*, 29 S.W.291 (Ky. 1895). Likewise, neither the Constitution nor the Federal statutes give that power to the courts.

The defenses to any action for infringement of a patent are set forth in 35 U.S.C. § 282 and are four in number. None of those four make the breach of a contract to purchase a defense to patent infringement. That section has not been amended since 1952, and Congress has not added a fifth defense, although having had ample opportunity to do so.

The Court of Appeals has not only created a new defense but has done so in a case in which the infringer did not assert such a defense in its pleadings in the trial court, nor in its brief as appellee. Even the four defenses listed in § 282 must be specifically pled, since they are affirmative defenses and are waived if not so pled. Defendant here did not plead the alleged breach of contract or the existence of a license, express or implied, as a defense to the infringement claim. The Court of Appeals opinion, if allowed to stand, has abrogated that requirement.

Likewise, Mitsuboshi failed to raise implied license in its statement of the issues presented for review in its Brief for Appellant. This Honorable Court should not sanction the abrupt elimination of the long-established requirement, not only in patent and trademark infringement cases but also generally, that an affirmative defense that has not been pleaded in the trial court and has not been raised in the Brief of Appellant should not be raised and enforced by the Court of Appeals itself.

The Federal Circuit here in reversing on the basis of an implied license to resell is in direct conflict with the cases holding that a license to resell either express or implied, must be pleaded as a defense to patent infringement, including *Reynolds Spring Co. v. L.A. Young Industries*, 101 F.2d 257 (CCA Mich. 1939), and *Sims v. Mack Trucks, Inc.*, 459 F.Supp. 1198, rev'd on other grounds 608 F. 87, cert. denied 445 U.S. 930, and even conflicts with its own prior opinions holding that any affirmative defense in a patent infringement case must be expressly pleaded, including *Manville Sales Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (CA Fed. 1990), and *Bio-Red Labs, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, cert. denied 469 U.S. 1038 (CA Fed. 1984).

The Court of Appeals has also muddled the relationship between Federal and State law and overlooked the express requirement of the Uniform Commercial Code as adopted in Texas (Tex. Bus. & Com. Code § 2.706(a)), that the resale must be made in good faith and in a commercially reasonable manner, and application of that requirement by the Supreme Court of Texas in the very recent case of *Lenape Resources Corp., et al v. Tennessee Gas Pipeline Co.*, 38 Tex. Sup. Ct. J. 1124 (August 1, 1995). The Federal Circuit also fails to consider the impact of the Federal Patent Law upon the state versions of the U.C.C. This is especially egregious in that the jury found as a fact that Mitsuboshi did not act reasonably when it sold the shrimp knives to Admiral Craft.

The confusion created by the Court of Appeals opinion in this case should be dispelled by this Honorable Court in order to prevent the whole field of patent and trademark infringement law from being sent down wrong

paths and to avoid discouragement of the spirit of invention which has made this country a leader in both science and commerce.

I. THE FEDERAL CIRCUIT HAS IMPROPERLY LEGISLATED A NEW DEFENSE TO CLAIMS FOR PATENT INFRINGEMENT IN HOLDING THAT A BREACH OF CONTRACT TO PAY MONEY ABROGATES ONE'S PATENT AND TRADEMARK RIGHTS

Article 1, § 8, Clause 8, vests the power in Congress, and only in Congress, "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." Under this clause, Congress has plenary authority as to all matters relating to issuance of patents and infringements thereof. *Grob v. Continental Machinery Specialties*, 283 N.W. 774 (Minn. 1939).

Congress has exercised that power in the patent law and set forth the defenses to patent infringement, doing so in four subparagraphs broad enough to show the intent that they be exclusive. The Federal Circuit here has in effect created a fifth defense, a patentholder's breach of contract to pay money.

Although the provisions of § 282 basically go back to the Act of July 8, 1870, c. 230, § 61, 16 Stat. 208, in all the 125 years since 1870 neither this Honorable Court nor any U.S. Court of Appeals has created or recognized such an additional defense to patent infringement.

Moreover, the claimed breach of contract here is the failure of Petitioners to pay the debt of a third party, A.D.T. Marketing, which Petitioners never agreed to pay. Thus, even if the Fifth Circuit had the power to amend the power to amend the patent law by creating a new and additional infringement defense, this was not an appropriate case in which to do so.

II. AN IMPLIED LICENSE TO RESELL SHOULD NOT EXCEED THE LIMITS NECESSARY TO MAKE THE CONTRACT EFFECTIVE NOR IN THE FACE OF EXPRESS REFUSAL TO AUTHORIZE SUCH EXCESS

The Federal Circuit purports to find an involuntary implied license to Mitsuboshi to sell the patented and trademarked shrimp knives anywhere in the world, including the United States. While the opinion notes that, "An implied license, however, must not exceed the limits necessary to make the contract effective. *See Waterman v. Mackenzie*, 138 U.S. 352 (1891)," after paying such lip service to that rule it then ignored the requirement and gave no attention at all to what the proper limits should be in the present case.

Mitsuboshi, a Japanese corporation which manufactured the knives in Japan, could have protected itself and given effect to the alleged contract by resale of the remaining knives in Japan or elsewhere in the world outside of the United States, as Petitioners were willing for it to do, rather than knowingly selling them to a cut-rate mail order firm for distribution in the United States at prices so low as to undercut and destroy Petitioners'

business, interfering with their customer relations in the United States, while fully aware that resale in the United States was the last thing Petitioners wanted.

Further, it is basic contract law that nothing will be implied that is contrary to the express intention of the parties. As stated in 17A Am.Jur.2d Contracts § 379, "No implied obligation can exist under a contract upon a point which it is apparent was not in the minds of the parties when the contract was executed." See *Interstate Trust & Banking Co. v. Liquidators*, 78 So. 968. No terms can be implied which are inconsistent with the expressions of the parties. *TVA v. Exxon Nuclear Co.*, 753 F.2d 493 (CA 6); *Walter R. Cliffe Co. v. DuPont Engineering Co.*, 298 F. 649 (D.C. Del.); etc.

Here, Mitsuboshi's Executive Vice President testified that Mitsuboshi was aware that the knives were patented and trademarked and that Admiral Craft would sell the knives at discount prices throughout the United States and in competition with Petitioners within the United States, and also testified that Mitsuboshi recognized that it needed permission from Alex-Duncan to resell in the United States.

In the dealings between Petitioners and Mitsuboshi after the failure of A.D.T. to make payment for the knives it ordered, Petitioners repeatedly refused to authorize resale in the United States but offered repeatedly to allow resale outside of the United States. JA 840.8 – 840.9, 840.2, line 6 – 840.21, line 6, 882.39, 901.19, line 19 – 901.20, line 19, 901.68, line 19 – 69, line 1; A-77 - 78; etc. Over the course of negotiations, Petitioners prepared and signed an agreement which would authorize Mitsuboshi to resell

outside of the United States, and Mitsuboshi prepared and signed an agreement authorizing it to resell anywhere in the world, including the United States, but each side rejected and refused to sign the proposal of the other side.

No implied obligation can exist under a contract which it is apparent was not intended by ***both*** parties.

III. THE FEDERAL CIRCUIT IMPROPERLY FOUND BREACH OF CONTRACT AND AN IMPLIED LICENSE AS DEFENSES TO THIS ACTION FOR INFRINGEMENT WHEN NEITHER WAS PLEADED IN THE TRIAL COURT BY DEFENDANT MITSUBOSHI NOR ASSERTED IN ITS BRIEF AS APPELLEE

With respect to affirmative defenses to any cause of action, a defendant must expressly plead each such defense relied upon. *General Bakelite Co. v. Nickolas*, 207 F. 111; *Anderson v. Saint*, 46 F. 760; etc. With specific reference to defenses to patent infringement, 35 U.S.C. § 282 expressly declares as to the defenses set forth for actions involving the validity or infringement of a patent, such defenses "shall be pleaded."

Even more specifically the other Courts of Appeals have held that express or implied license as a defense to infringement must be affirmatively pleaded. *Reynolds Spring Co. v. L.A. Young Industries*, 101 F.2d 257 (CCA Mich. 1939), holds that such is the case even if the relevant facts appear in the evidence, and that the lack of pleading prohibits consideration of such defense. See also, *Sims v. Mack Trucks, Inc.*, 459 F. Supp. 1198, rev'd on

other grounds, 608 F.87, cert. denied, 445 U.S. 930, on remand, 488 F.Supp. 592.

Additional authorities holding that any affirmative defense in patent cases must be expressly pleaded include *Bio-Red Labs, Inc. v. Nicolet Instrument Corp.*, 739 F.2d 604, cert. denied 469 U.S. 1038 (CA Fed. 1984), and *Manville Sale Corp. v. Paramount Systems, Inc.*, 917 F.2d 544 (CA Fed. 1990), both by the Court of Appeals for the Federal Circuit itself. Nevertheless, the panel in the present case completely ignores the absence of pleading of implied license by Mitsuboshi in reversing and rendering on that basis.

The operative answer of Mitsuboshi is appended at A-61. Similarly, in Mitsuboshi's Brief of Appellant the Statement of the Issues presented for review, A-68, does not mention implied license nor assert that as a defense or ground for appeal.

IV. THE FEDERAL CIRCUIT HERE ERRED IN DISREGARDING THE STATE LAW THAT A RESALE MUST BE CONDUCTED IN A COMMERCIALLY REASONABLE MANNER AND THE JURY FINDING THAT MITSUBOSHI IN ITS SALE TO ADMIRAL CRAFT FAILED TO MEET THAT REQUIREMENT

The Court of Appeals opinion relies on the Texas version of the Uniform Commercial Code to authorize Mitsuboshi to resell the knives to Admiral Craft, but that very same statute requires that any such resale be made in a commercially reasonable manner and in good faith. Tex. Bus. & Comm. Code § 2.706(a). Mitsuboshi did not

seek or obtain any jury finding that its sale to Admiral Craft was in good faith or even to so plead. J.A. 169-174. Moreover, the fact finding of the jury in answer to Question 19, A-26, was that Mitsuboshi did not act reasonably in an attempt to mitigate its damages when it sold the knives to Admiral Craft.

The Supreme Court of Texas in the *Lenape Resources Corp. v. Tennessee Gas Pipeline Co.*, 18 Tex. Sup. Ct. J. 1124, handed down August 1, 1995, confirms that any such sales under Texas law must be through commercially reasonable methods and carried out in good faith. This is not only Texas law but that of all the jurisdictions which have adopted the Uniform Commercial Code.

V. THE FEDERAL CIRCUIT HERE IMPROPERLY HOLDS THAT THE BREACH OF CONTRACT AND IMPLIED LICENSE TO RESELL DEFENSES TO PATENT AND TRADEMARK INFRINGEMENT ALSO NECESSARILY NEGATE THE STATE LAW CAUSES OF ACTION FOR UNFAIR COMPETITION AND INTENTIONAL INTERFERENCE WITH POTENTIAL CONTRACTS WITH CUSTOMERS AND PROSPECTIVE BUSINESS RELATIONS

Because of its holding that as a matter of law there were valid defenses to the Federal patent and trademark infringement claims, it brushed off the State law claims, but this result is certainly not a necessary concomitant to the holdings as to the Federal claims.

To avoid the cause of action for tortious interference, state law required Mitsuboshi to plead and prove legal justification or excuse. *Sterner v. Marathon Oil Co.*, 767

S.W.2d 686 (Tex. 1989). Mitsuboshi did not plead this defense and offered no evidence to support it as required by Texas law. *Victoria Bank & Trust Co. v. Brady*, 811 S.W.2d 931 (Tex. 1991). See likewise, *Wardlaw v. Exchange Savings & Loan Assn.*, 599 S.W.2d 119 (Tex. Civ. App. – Dallas 1980, no writ); *Swafford v. Tri-State Chemicals, Inc.*, 764 S.W.2d 24 (Tex. App. – El Paso 1989, er. denied); *Guerra v. Brumlow*, 630 S.W.2d 425 (Tex. App. – San Antonio 1982, no writ).

With respect to the state cause of action for unfair competition, the Federal Circuit opinion held that such claim failed because there was no finding of some independent substantive tort or other illegal conduct, despite the jury finding of unfair competition. However, the jury did find in answer to Question No. 10 (A-23), that Mitsuboshi intentionally interfered with potential contracts that Petitioners could have had with their customers, and in answer to Question No. 13 (A-24) that Mitsuboshi intentionally interfered with the potential business relations of Petitioners.

Under Texas law each of those findings met the requirement for such independent tort as to support a cause of action for unfair competition, both tortious interference with actual or prospective contracts and intentional interference with potential business relations being sufficient for that purpose. *Schoellkopf v. Pledger*, 778 S.W.2d 897 (Tex. App. – Dallas 1989, er. denied); *Duckworth, Inc. v. Michael L. Field & Co.*, 516 F.2d 952, 956 (CA Tex. 1975); *Exxon Corp. v. Allsup*, 808 S.W.2d 648 (Tex. App. – Corpus Christi 1991, no writ).

There was ample evidence in the record to support the jury's answers to Questions 10 and 13, and the federal infringement claims were not necessary to the state claim for unfair competition nor indeed to the other state claims.

VI. MISSTATEMENTS IN THE COURT OF APPEALS OPINION

The Fifth Circuit opinion refers to A.T.D. as McCoy's marketing organization and treats it as Petitioner's agent and representative authorized to order the patented knives from Mitsuboshi. However, the evidence in the record establishes that A.T.D. was a completely separate and independent corporation which distributed products for many manufacturers. J.A. 802.3, lines 2-18; A-70 - 71. McCoy emphatically testified that A.T.D. Marketing was not his agent or that of his company to buy knives and resell them in the United States and that A.D.T. was not authorized on behalf of Petitioners to make an agreement with Mitsuboshi to buy knives or to sell them in the United States. J.A. 802.3, line 19 – 802.5, line 5; A-71 - 72.

While the opinion states that, "McCoy acknowledged its responsibility for A.T.D.'s refusal to pay," Petitioners did not acknowledge any such legal responsibility or promise to pay for A.T.D.'s entire order. However, McCoy did recognize some moral responsibility and wanted to maintain a relationship with Mitsuboshi and therefore did agree to purchase and pay for 20,160 of the knives and did so, with no more than an indication that if and when it could it would try to purchase and pay for the others. However, as to the remaining knives, there was

never any agreement definite as to time and payment which could constitute a binding contract.

We also note that contrary to the statement in the Court's opinion, Petitioners did seek and obtain a preliminary injunction on August 11, 1993, against further resales of knives. J.A., 135-7.

CONCLUSION

For the reasons stated herein, a Writ of Certiorari should be granted in this case and the judgment of the Court of Appeals reversed and that the District Court reinstated and affirmed.

Respectfully submitted,

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United States Court of Appeals for the Federal Circuit

95-1087

DUNCAN MCCOY, ALEX DORSETT, and
ALEX-DUNCAN SHRIMP CHEF, INC.,

Plaintiffs-Appellees,

v.

MITSUBOSHI CUTLERY, INC., and
ADMIRAL CRAFT EQUIPMENT CORPORATION,

Defendants-Appellants.

DECIDED: October 4, 1995

Before MAYER, MICHEL, and RADER, *Circuit Judges.*

RADER, *Circuit Judge.*

Duncan McCoy, Alex Dorsett, and Alex-Duncan Shrimp Chef, Inc. (McCoy) sued Mitsuboshi Cutlery, Inc. (Mitsuboshi) and Admiral Craft Equipment Corp. (Admiral Craft) for infringing McCoy's intellectual property rights and committing business torts. McCoy's sales organization had hired Mitsuboshi to make and supply shrimp knives covered by McCoy's patent and trademarks. When Mitsuboshi produced the knives, McCoy refused to pay for them. Mitsuboshi resold the knives to Admiral Craft. McCoy sought damages from Mitsuboshi and Admiral Craft for selling the knives to third parties. Admiral Craft settled with McCoy before trial.

A jury found that Mitsuboshi committed patent and trademark infringement in violation of federal law, tortious interference with McCoy's prospective business

relations in violation of Texas law, and unfair competition in violation of federal and Texas law. The jury also found, however, that McCoy breached its contract with Mitsuboshi by refusing to pay for the knives. The trial court then entered judgment awarding McCoy $2.6 million in actual and punitive damages, attorney fees, and costs, plus prejudgment interest. *McCoy v. Mitsuboshi Cutlery Inc.*, No. H-93-1774 (S.D. Tex. Sept. 19, 1994) (final judgment). The trial court also awarded Mitsuboshi $89,337 on its breach of contract counterclaim. *Id.* Because Mitsuboshi was entitled to resell the knives in response to McCoy's wrongful refusal to pay, this court reverses.

BACKGROUND

McCoy owns U.S. Patent No. 4,759,126 on a shrimp knife that peels, deveins, and butterflies in one motion. McCoy arranged for Mitsuboshi, a Japanese knife manufacturer, to produce shrimp knives embodying the patented invention. At McCoy's request, Mitsuboshi stamped the knives with McCoy's registered U.S. Trademarks Nos. 1,687,589 and 1,702,878. From 1988 to 1990, Mitsuboshi manufactured and sold large quantities of these knives to McCoy.

In 1991, McCoy's separate marketing organization, A.T.D. Marketing, Inc. (ATD), ordered 150,000 of the knives from Mitsuboshi. Mitsuboshi produced the knives. When Mitsuboshi timely offered the knives, ATD refused to accept or pay for them. ATD's refusal left Mitsuboshi holding the 150,000 knives in its warehouse in Japan. The record contains no suggestion that the knives were defective.

McCoy acknowledged its responsibility for ATD's refusal to pay. McCoy, however, accepted and paid for only about 20,000 of the 150,000 knives ordered. McCoy refused to pay for the other 130,000 knives. On the basis of these facts, the jury found that McCoy breached its contract with Mitsuboshi. McCoy did not appeal this jury verdict.

Following McCoy's partial payment, Mitsuboshi continued to negotiate for payment and delivery of the remaining 130,000 knives. McCoy, however, remained silent, unable to pay for them. In the face of this silence, Mitsuboshi repeatedly notified McCoy of its intent to resell the knives to mitigate damages. At length, Mitsuboshi sold 6,456 of the knives to Admiral Craft, a mail-order wholesaler of restaurant supplies. Admiral Craft sold 958 of the knives in the United States to restaurants and supply houses in 1993 through its mail catalog.

McCoy sued Mitsuboshi and Admiral Craft for patent and trademark infringement, unfair competition in violation of both federal and Texas law, and several Texas state law torts. Admiral Craft settled, but Mitsuboshi persevered, counterclaiming for breach of contract. At the close of evidence, Mitsuboshi moved for judgment as a matter of law that it was entitled to resell the knives. The trial court denied Mitsuboshi's motion. The jury found against Mitsuboshi on the infringement, unfair competition, and tortious interference counts, and for Mitsuboshi on the breach of contract count. Mitsuboshi then renewed its motion for judgment as a matter of law. The trial court again denied the motion. Mitsuboshi appeals.

DISCUSSION

I.

The jury found, and McCoy does not contest, that McCoy breached its contract with Mitsuboshi. This appeal thus raises the purely legal question of the effect of McCoy's breach on his intellectual property rights in the knives. This court confronts this question for the first time.

A patent confers on its holder the right to exclude others from making, using, or selling what is described in its claims. 35 U.S.C.A. § 154(a)(1) (West Supp. 1995); *see generally Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547, 35 USPQ2d 1065, 1070 (Fed. Cir. 1995) (en banc). This court has recognized that these intellectual property rights, like any other property rights, are subject to the contractual obligations of their owner and the applicable law:

> Th[e] right to exclude may be waived in whole or in part. The conditions of such waiver are subject to patent, contract, antitrust, and any other applicable law, as well as equitable considerations such as are reflected in the law of patent misuse. *As in other areas of commerce, private parties may contract as they choose, provided that no law is violated thereby.* . . .

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700, 703, 24 USPQ2d 1173, 1176 (Fed. Cir. 1992) (emphasis added). Thus, a patent or trademark owner may contract to confer a license on another party. *see id.* (patent); *Moore Bus. Forms, Inc. v. Rvu*, 960 F.2d 486, 489, 22 USPQ2d 1773,

1774-75 (5th Cir. 1992) (trademark).[1] In most instances under contract law, a patent or trademark owner intentionally creates an express license. A licensee, of course, has an affirmative defense to a claim of patent infringement.

In some circumstances, however, the entire course of conduct between a patent or trademark owner and an accused infringer may create an implied license. *See Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1559, 219 USPQ 377, 383 (Fed.Cir. 1983). The Supreme Court stated:

> Any language used by the owner of the patent or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license and a defense to an action. . . .

De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241 (1927).When warranted by such a course of conduct, the law implies a license. *Devices for Medicine, Inc. v. Boehl*, 822 F.2d 1062, 1068, 3 USPQ2d 1288, 1293-94 (Fed. Cir. 1987).

Whether express or implied, a license is a contract "governed by ordinary principles of state contract law." *Power Lift Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d

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[1] This court applies regional circuit law – here, the law of the Fifth Circuit – to trademark and unfair competition issues that are not unique to this court's exclusive jurisdiction. *See, e.g., Imagineering, Inc. v. Van Klassens, Inc.*, 53 F.3d 1260, 1263, 34 USPQ2d 1526, 1528 (Fed. Cir.), *petition for cert. filed*, 64 U.S.L.W. 3070 (U.S. July 21, 1995) (No. 95-127).

1082, 1085, 10 USPQ2d 1464, 1466 (Fed. Cir. 1989). Moreover the law may imply licenses "to make effective the contracts of the patentee." 6 Ernest B. Lipscomb III. *Libscomb's Walker on Patents* § 20:14, at 33 (3d ed. 1987). An implied license, however, must not exceed the limits necessary to make the contract effective. *See Waterman v. Mackenzie*, 138 U.S. 252 (1891).

To enforce the contracts of the patentee, the law may imply a license where a patent holder sells or authorizes the sale of a patented product – a voluntary sale. *See, e.g., United States v. Univis Lens Co.*, 316 U.S. 241, 250-51, 53 USPQ 404, 408 (1942); *Ansul Co. v. Uniroyal, Inc.*, 448 F.2d 872, 880, 169 USPQ 759, 763-64 (2d Cir. 1971), *cert. denied*, 404 U.S. 1018, 172 USPQ 257 (1972). Thus, "an authorized sale of a patented product places that product beyond the reach of the patent." *Intel Corp. v. ULSI Sys. Technology, Inc.*, 995 F.2d 1566, 1568, 27 USPQ2d 1136, 1138 (Fed. Cir. 1993), *cert. denied*, 114 S. Ct. 923 (1994). Under this implied license, a patent holder receives a reward for inventive work in the first sale of the patented product. *Univis*, 316 U.S. at 251.As the Supreme Court stated:

> Patentees . . . are entitled to but one royalty for the patented machine, and consequently when a patentee has himself constructed the machine and sold it, or authorized another to construct and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so authorized to be constructed and operated.

Bloomer v. Millinger, 68 U.S. 340, 350 (1863).

In some cases, the law implies a license where a patent holder does not authorize the sale of a patented product – an involuntary sale. *See, e.g., Wilder v. Kent*, 15 F. 217, 219 (C.C.W.D. Pa. 1883). For example, in *Wilder*, the patent holder sued an individual for infringement who purchased a machine at a sheriff sale. The court dismissed the complaint finding the purchaser had acquired the right to use the patented machine through the purchase at the sheriff's sale. The court reasoned: "To deny to the sheriff's vendee the right to use such machine would in effect prevent its sale upon an execution at law . . . and practically withdraw it from the reach of the owner's execution creditors." *Id.* While appreciating the unique nature of patent rights, the court noted that "a patented machine is susceptible of manual seizure, and the unrestricted sale thereof does not involve the transfer of any interest in the patent." *Id.* at 220.

Justice Story, sitting on the Massachusetts Circuit Court, recognized a similar principle in denying a patent holder the right to sue a sheriff for infringement for his part in the sale of a patented product at a sheriff's sale. *Sawin v. Guild*, 21 F. Cas. 554, 554-55 (C.C.D. Mass. 1813) (No. 12,391). He reasoned that statutes must be construed where possible to avoid introducing "public mischiefs, or manifest incongruities." *Id.* Justice Story felt a great public mischief would result if courts construed, the patent laws to permit an action against a sheriff for selling a patented product at a sheriff's sale. *Id.*

More recently, in an opinion authored by Judge Friendly, the United States Court of Appeals for the Second Circuit expressly recognized and extended this implied license doctrine to the sale of products by an

aggrieved seller to remedy a buyer's breach. *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 137 USPQ 268 92d Cir. 1963). Platt & Munk owned copyrights on educational toys and contracted with Republic to supply them. *Id.* at 849. After Republic began delivery, Platt & Munk alleged various defects and refused to pay for the balance of the toys. *Id.* at 849-50. Republic then informed Platt & Munk of its intent to resell the toys to recover its production costs. Platt & Munk responded by seeking an injunction prohibiting Republic from reselling the toys without Platt & Munk's consent. *Id.* at 850. The trial court granted a preliminary injunction without addressing whether the toys were actually defective or whether Platt & Munk had the right to refuse payment. Republic filed an interlocutory appeal. *Id.*

The Second Circuit remanded to the trial court to determine whether Platt & Munk justifiably refused to pay for the toys. *Id.* at 855. If not, it instructed the trial court to lift the injunction. In other words, if Platt & Munk breached the contract, Republic had a right to resell the toys notwithstanding any copyright protection. *Id.* The Second Circuit based its holding on New York contract law, which provided a seller of goods the right to mitigate damages for contract breaches. *Id.* at 854. Where Platt & Munk breached, the Second Circuit found that Platt & Munk's copyrights had no effect on Republic's state law right to resell:

> We see no reason why the copyrighted character of the goods should preclude [resale] when – and the qualification is vital – the person for whom for goods were being made unjustifiably refuses to pay the price.

Platt, 315 F.2d at 855.

This ruling extended the implied license doctrine beyond sales under judicial decree to sales under self-help provisions in commercial law. Together, *Wilder*, *Sawin*, and *Platt* demonstrate that the law may create an implied license to enforce the contract obligations of the patent holder and recognize legal rights of aggrieved parties. In the case of sheriff's sale, the patent holder defaulted on an obligation colateralized by patented merchandise. The creditor can have the property seized by the sheriff and sold. In the case of the self-help sale, the patent holder has defaulted on a contractual obligation based on patented merchandise. Under commercial law, the aggrieved seller can sell the merchandise and recover any losses from the breaching buyer. Absent an implied license in either case, patent holders could frustrate otherwise available commercial remedies.

Here, McCoy and Mitsuboshi had a long-standing business relationship whereby Mitsuboshi manufactured McCoy's patented knives. In 1991, McCoy placed a purchase order for 150,000 knives with Mitsuboshi. Mitsuboshi, in turn, accepted the order and performed its obligations under that agreement. When it rendered the knives to McCoy, McCoy breached the contract by failing to pay. As that point, rather than immediately act, Mitsuboshi continued to negotiate with McCoy in an effort to secure payment and deliver the knives. After repeated failed attempts, Mitsuboshi sold some of the knives to an American company.

The applicable state contract law in this case is Texas's version of the Uniform Commercial Code. Tex. Bus. & Com. Code §§ 1.101-11.108 (1995) (Texas UCC). Because this case involves the sale of goods, the Texas

UCC entitles the seller to resell the goods upon the buyer's wrongful refusal to pay. Texas UCC §§ 2.703(4), 2.706(a). Consequently, under Texas contract law, when McCoy breached the contract, Mitsuboshi had a right to resell the knives to recoup its losses without McCoy's consent.

As in *Platt*, an implied license properly enforces McCoy's contractual promise to pay for the knives, reflects Mitsuboshi's commercial efforts to resolve the matter, and recognizes Mitsuboshi's rights to mitigate under the Texas UCC. This court, like our sister circuit in *Platt*, sees no reason why the owner of intellectual property rights deserves to evade application of the ordinary contract remedy of resale for an unjustified refusal to pay.

This implied license does not offend the protection afforded patent and trademark rights by federal law. Instead, licenses, like other federal property and contract rights, conform to the applicable state laws. *See Power Lift*, 871 F.2d at 1085; *see also Mallinckrodt*, 976 F.2d at 703. As this court observed in *Power Lift*, the Supreme Court had held that federal patent law does not preempt enforcement of contracts under state law. *Id.* (discussing *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 261-64, 201 USPQ 1, 4-6 (1979)). By the same reasoning, federal trademark law does not preempt contract enforcement either. Intellectual property owners "may contract as they choose." *Mallinckrodt*, 976 F.2d at 703, but their intellectual property rights do not entitle them to escape the consequences of dishonoring state contractual obligations.

Mitsuboshi's right to resell under Texas law, furthermore, did not require a prior adjudication that McCoy acted wrongfully in refusing to pay for the knives. Section 2.706(a) of the Texas UCC authorizes a seller to resell without adjudication:

> Under the conditions stated in Section 2.703 on seller's remedies [that is, "[w]here the buyer wrongfully . . . fails to make a payment due on or before delivery"], the seller may resell the goods concerned. . . . Where the resale is made in good faith and in a commercially reasonable manner the seller may recover the difference between the resale price and the contract price together with any incidental damages . . . but less expenses saved in consequence of the buyer's breach.

Section 2.706(a) explicitly authorizes a seller in Mitsuboshi's position to first resell the goods and then, if it chooses, sue to recover the difference between the resale price and the original contract price. Under the Texas UCC, therefore, Mitsuboshi had the right to resell as a self-help remedy without first obtaining judicial confirmation of McCoy's breach.

Platt also does not require an adjudication before resale in this case. *Platt* involved a preliminary injunction prohibiting resale. In upholding the preliminary injunction pending determination of whether Platt & Munk was obligated to pay for the goods, the Second Circuit merely recognized that the trial court had not abused its discretion in granting an injunction in light of Platt & Munk's "good faith claim that its failure to pay for the goods was justified." *Platt*, 315 F.2d at 855.

In this case, McCoy did not seek nor obtain a preliminary injunction prohibiting Mitsuboshi from reselling the knives, despite McCoy's knowledge that Mitsuboshi intended to resell. Under Texas law, nothing prevented Mitsuboshi from exercising its right to resell in response to McCoy's breach. In sum, Mitsuboshi did not infringe McCoy's patent or trademarks by exercising its Texas law right to resell the knives to mitigate the breach.

II.

Title 15 of the U.S. Code prohibits unfair competition:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which –
>
> is *likely to cause confusion, or to cause mistake, or to deceive* as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> . . . .
>
> shall be liable in a civil action. . . .

15 U.S.C. § 1125(a)(1)(A) (1994) (emphasis added). This statute covers a wide range of unfair business practices – each, however, possessing a common thread: "[T]he touchstone of a section 1125(a) unfair competition claim is whether the defendant's actions are 'likely to cause confusion.' " *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 592, 26 USPQ2d 1532, 1536 (5th

Cir. 1993) (quoting section 1125(a)). Thus liability for unfair competition, like liability for trademark infringement, depends on likelihood of confusion. *Id.* at 590, 592; *see also* 15 U.S.C. § 1114(1)(a) (1994).

The United States Court of Appeals for the Fifth Circuit considers likelihood of confusion a question of fact. *Moore*, 960 F.2d at 489. In *Matrix Essentials*, however, the Fifth Circuit held as a matter of law that no likelihood of confusion can arise from the sale of genuine goods, even if the sale is unauthorized. 988 F.2d at 590-93. In *Matrix Essentials*, Emporium sold without authorization Matrix's hair-care products. Emporium, a high-volume discount drug more, acquired a supply of genuine Matrix products bearing Matrix trademarks and offered them for sale. *Id*, at 589. The products had the same origin, and thus the same quality, as other Matrix products. *Id.* at 590. Matrix, however, intended its products to be sold only in hair-cutting salons. *Id.* at 589. To protect its retail policy. Matrix bought out Emporium's entire stock. *Id.* Emporium then acquired a second supply of Matrix products. *Id.* Matrix responded by suing for trademark infringement and unfair competition. *Id.*

The Fifth Circuit rejected Matrix's claims: "Emporium's sale of Matrix products cannot cause confusion as to manufacture or sponsorship because the goods were manufactured and labeled by Matrix." *Id.* at 592. Our sister circuit observed; "the general rule is that 'trademark law does not apply to the sale of genuine goods bearing a true mark, even if the sale is without the mark owner's consent.' " *Id.* at 590 (quoting *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107, 18 USPQ2d

1156, 1157 (4th Cir. 1991)). It is a tautology that a consumer purchasing genuine goods receives exactly what the consumer expects to receive: genuine goods. The consumer is not confused or deceived about the source of qualify of the product. *See Matrix Essentials*, 988 F.2d at 591.

In this case, the knives resold by Mitsuboshi were genuine. They were the same knives that Mitsuboshi would have delivered to McCoy if McCoy had not wrongfully refused to pay for them. Because the knives were genuine, *Matrix Essentials* dictates that Mitsuboshi did not cause consumer confusion by reselling them. That McCoy did not authorize resale is immaterial. Therefore, this court holds as a matter of law that Mitsuboshi did not commit trademark infringement or unfair competition by reselling the knives.

McCoy argues that Mitsuboshi confused consumers by selling McCoy goods without McCoy's approval. This argument mirrors Matrix's argument, which the Fifth Circuit rejected. In support of its unfair competition claim, Matrix argued that Emporium "[misled] consumers into believing that it is an authorized retailer of Matrix products and that Matrix condones the sale of its products through ordinary retail drugstores." *Id.* at 592. The Fifth Circuit rejected this form of confusion, if confusion at all, as actionable unfair competition

> Matrix is not able to point to any authority holding that the unauthorized stocking of a trademark owner's products, without more, rises to the level of a "misleading representation of fact."
>
> . . . .

> We are not persuaded by Matrix's arguments to expand the reach of section 1125(a) to provide a cause of action merely for the unauthorized stocking and sale of a manufacturer's products. Absent more culpable conduct on the part of the seller, we are unwilling to find misrepresentation in the mere act of putting a manufacturer's product on one's shelf and offering it for sale. We therefore affirm the district court's grant of summary judgment in favor of Emporium on the trademark and unfair competition claims.

Id. at 593. *Matrix Essentials* thus squarely holds that the sale of genuine goods, even if unauthorized, cannot cause confusion and consequently cannot constitute trademark infringement or unfair competition. This court, as a matter of law, holds that Mitsuboshi committed no violation of the unfair competition statute.

III.

The jury also found that Mitsuboshi committed tortious interference and unfair competition in violation of Texas law. Under the defense of legal justification, a party exercising its legal rights in good faith cannot tortiously interfere with another's prospective business relations. *Victoria Bank & Trust Co. v. Brady*, 811 S.W.2d 931, 939-40 (Tex. 1991); *see also International Shortstop, Inc. v. Rally's, Inc.*, 939 F.2d 1257, 1270-71 (5th Cir. 1991) (following *Victoria Bank & Trust*), *cert. denied*, 502 U.S. 1059 (1992). Whether the party acted in good faith is a question of fact by the jury, *see Victoria Bank & Trust*, 811 S.W.2d at 940,

which this court reviews for substantial evidence. *Genentech, Inc. v. Wellcome Found, Ltd.*, 29 F.3d 1555, 1565, 31 USPQ2d 1161, 1168-69 (Fed. Cir. 1994).

In this case, however, the jury did not reach the question of good faith. In finding that Mitsuboshi committed patent and trademark infringement and unfair competition, the jury necessarily found that Mitsuboshi did not have a legal right to resell the knives. As explained, this finding is wrong as a matter of law. The law entitled Mitsuboshi to resell the knives.

This court need not, however, remand for a jury to determine whether Mitsuboshi acted in good faith when it resold and knives, because "nothing of record warrants a further exercise of the fact-finding function." *Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1565-66, 1 USPQ2d 1593, 1595 (Fed. Cir.), *cert. denied*, 481 U.S. 1052 (1987). The record contains no evidence that Mitsuboshi acted in bad faith. Instead, the record conclusively shows Mitsuboshi's good faith. Consequently, as a matter of law, Mitsuboshi did not tortiously interfere with McCoy's prospective business relations.

To find unfair competition under federal law, the trial court instructed the jury that McCoy could prevail on its unfair competition claim only if it proved Mitsuboshi's resale of the knives created a likelihood of confusion. As explained, this record involves no likelihood of confusion because the knives resold by Mitsuboshi were genuine. McCoy contends on appeal, however, that the jury's unfair competition verdict rests on Texas state law, which recognizes a broader range of unfair practices without

proof of a likelihood of confusion. McCoy's maneuvering is to no avail.

In support of its state law argument, McCoy cites *Schoellkopf v. Pledger*, 778 S.W.2d 897 (Tex. Ct. App. 1989), *error denied*, (June 13, 1990). *Schoellkopf* recognizes "unlawful business injury" as a type of unfair competition. *Id.* at 904.[2] *Schoellkopf* does not delineate the precise bounds of this broadly defined tort. It does, however, recognize that this type of unfair competition requires commission of another tort or other illegal conduct:

> Without some finding of an independent substantive tort or other illegal conduct, we hold that liability cannot be premised on the tort of "unfair competition."

Id. at 904-05. *Schoellkopf* applied this standard in a way directly relevant to the present case. A jury had awarded Pledger actual and punitive damages, finding that Schoellkopf had tortiously interfered with Pledger's contract rights and committed unfair competition. *Id.* at 899. The Texas Court of Appeals reversed the tortious interference verdict. *Id.* at 900-04. The court then reversed the unfair competition verdict, holding that Schoellkopf could not

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[2] Other types of unfair competition recognized under Texas law include trade secret misappropriation, passing off, and misappropriation of business opportunity. *United States Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 217 (Tex. Ct. App. 1993), *error denied*, (March 30, 1994). None of these liability theories are applicable, however. McCoy has never claimed that Mitsuboshi misappropriated its trade secrets. Before trial, furthermore, McCoy voluntarily dismissed its passing off claim, and the trial court dismissed McCoy's misappropriation of business opportunity claim.

be liable for unfair competition absent tortious interference because Schoellkopf had not committed "an independent substantive tort or other illegal conduct." *Id.* at 904-05.

Likewise, Mitsuboshi has not committed an independent tort or illegal conduct justifying a finding of unfair competition under McCoy's theory on appeal. Because Mitsuboshi did not commit patent or trademark infringement, federal unfair competition, or tortious interference, no independent tort or illegality supports the verdict of unfair competition. This court also reverses that verdict.

CONCLUSION

Texas law entitled Mitsuboshi to resell the knives upon McCoy's wrongful refusal to pay for them. The trial court erred in denying Mitsuboshi judgment as a matter of law on each of the counts in McCoy's complaint – infringement of McCoy's patent or trademarks, tortious interference with McCoy's prospective business relations, and unfair competition with McCoy by reselling the knives.

COSTS

Each party shall bear its own costs.

REVERSED.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

95-1087

DUNCAN MCCOY, ALEX DORSETT, and
ALEX-DUNCAN SHRIMP CHEF, INC.,

Plaintiffs-Appellees,

v.

MITSUBOSHI CUTLERY, INC., and
ADMIRAL CRAFT EQUIPMENT CORPORATION,

Defendants-Appellants.

JUDGMENT

Appeal from a decision of the United States District Court for the Southern District of Texas in 93-1774 entered November 2, 1994, Magistrate Judge Frances H. Stacy.

This CAUSE having been heard and considered, it is ORDERED and ADJUDGED:

REVERSED

ENTERED BY ORDER
OF THE COURT

DATED: OCT. 4 1995

/s/ Francis X. Gindhart
Francis X. Gindhart, Clerk

ISSUED AS A MANDATE: November 6, 1995

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

DUNCAN MCCOY, ALEX DORSETT, and ALEX-DUNCAN SHRIMP CHEF, INC.,	§	
Plaintiffs,	§	CIVIL ACTION NO. H-93-1774
VS.	§	
MITSUBOSHI CUTLERY, INC., and ADMIRAL CRAFT EQUIPMENT CORPORATION,	§	
Defendants.	§	

VERDICT

JURY QUESTION 1.

Patent Infringement

Do you find by a preponderance of the evidence that Mitsuboshi infringed the '126 patent?

Claim 1, Answer: Yes ✓ No ___

Claim 13, Answer: Yes ✓ No ___

If you answered "Yes" to any part of Question 1, answer Question 2 and 3. If you answered "No" to all parts of Question 1, proceed to Question 4.

JURY QUESTION 2.

Patent Damages

What damages, if any, do you find were caused by Mitsuboshi's infringement of the '126 patent?

$ 30,000.00

JURY QUESTION 3.

Willful Infringement

Do you find that Mitsuboshi willfully infringed the '126 patent?

Claim 1, Answer: Yes ✓ No ___

Claim 13, Answer: Yes ✓ No ___

JURY QUESTION 4.

Trademark Infringement

Do you find by a preponderance of the evidence that Mitsuboshi has infringed the trademarks of the Plaintiffs?

Answer: Yes ✓ No ___

If you answered "Yes" to Question 4, then proceed to answer Questions 5 and 6. If you answered "No" to Question 4, proceed to Question 7.

JURY QUESTION 5.

Trademark Damages

What amount of money, if any, in dollars and cents, would compensate Plaintiffs for their actual damages caused by the infringement of their trademark by Mitsuboshi?

Answer: $ 30,000.00

JURY QUESTION 6.

Willful Infringement

Do you find that Mitsuboshi willfully infringed Plaintiffs' trademarks?

Answer: Yes ✓ No ___

JURY QUESTION 7.

Unfair Competition

Do you find that Mitsuboshi is guilty of unfair competition?

Answer: Yes ✓ No ___

If you answered "Yes" to Question 7, then proceed to answer Question 8. If you answered "No" to Question 7, proceed to Question 10.

JURY QUESTION 8.

Compensatory Damages

What amount of money, if any, in dollars and cents, do you find would fairly and reasonably serve as compensatory damages for Mitsuboshi's acts of unfair competition?

Answer: $ 399,837.00

If you find no damage amount on Question 8, then proceed to Question 10. If you find a damage amount on Question 8, then answer Question 9.

JURY QUESTION 9.

Punitive Damages

What sum of money, if any, should be assessed against Mitsuboshi and awarded to Plaintiffs as punitive or exemplary damages for the conduct found in response to Question 7?

Amount $ 1,750,000.00

JURY QUESTION 10.

Tortious Interference with
Prospective Contractual Relations

Do you find from a preponderance of the evidence that the sale of knives by Mitsuboshi intentionally interfered with the potential contracts that Plaintiffs could have had with its customers?

Answer: Yes ✓ No ___

If you answered "Yes" to the above question, proceed to question 11. If you answered "No" to the above question, proceed to answer Question 13.

JURY QUESTION 11.

Damages

What amount of money, if any, in dollars and cents, would compensate Plaintiffs for actual damages caused by the tortious interference by Mitsuboshi with Plaintiffs' prospective contractual relations?

Answer: $ -0-

If you find no damage amount for Question 11, then proceed to Question 13. If you do find a damage amount for Question 11, then answer to Question 12.

JURY QUESTION 12.

Punitive Damages

What sum of money, if any, should be assessed against Mitsuboshi and awarded to Plaintiffs as punitive or exemplary damages for the conduct found in response to Question 10?

Amount $ -0-

JURY QUESTION 13.

Tortious Interference with
Prospective Business Relations

Do you find from a preponderance of the evidence that the sale of knives by Mitsuboshi intentionally interfered with the potential business relations that Plaintiffs could have had?

Answer: Yes ✓ No ___

If you answered "Yes" to the above question, proceed to question 14. If you answered "No" to the above question, proceed to answer Question 16.

JURY QUESTION 14.

Damages

What amount of money, if any, in dollars and cents, would compensate Plaintiffs for actual damages caused

by the tortious interference by Mitsuboshi with Plaintiffs' prospective business relations?

Answer: $ 30,000.00

If you find no damage amount for Question 14, then proceed to Question 16. If you do find a damage amount for Question 14, then go to Question 15.

JURY QUESTION 15.

Punitive Damages

What sum of money, if any, should be assessed against Mitsuboshi and awarded to Plaintiffs as punitive or exemplary damages for the conduct found in response to Question 13?

Amount $ 100,000.00

JURY QUESTION 16.

Existence of Contract

Do you find from a preponderance of the evidence that a contract for the sale of knives existed between Mitsuboshi and Plaintiffs?

Answer: Yes ✓ No ___

If you answered "Yes" to Question 16, proceed to answer Question 17. If you answered "No" to Question 16, do not proceed.

JURY QUESTION 17.

Breach of Contract

Do you find from a preponderance of the evidence that Plaintiffs breached the contract for the sale of the knives?

Answer: Yes ✓ No ___

If you answered "Yes" to Question 17, proceed to answer Question 18. If you answered "No" to Question 17, do not proceed.

JURY QUESTION 18.

Breach of Contract Damages

What amount of money, if any, in dollars and cents, would compensate Mitsuboshi for the damages it realized as a result of the breach of contract for the sale of the knives?

Answer: $ 89,330.00

JURY QUESTION 19.

Mitigation

Do you find from a preponderance of the evidence that Mitsuboshi acted reasonably and in an attempt to mitigate its damages when it sold the shrimp knives to Admiral Craft.

Answer: Yes ___ No ✓

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

DUNCAN MCCOY, ALEX DORSETT, and ALEX-DUNCAN SHRIMP CHEF, INC.,	§	
Plaintiffs,	§	CIVIL ACTION NO. H-93-1774
VS.	§	
MITSUBOSHI CUTLERY, INC., and ADMIRAL CRAFT EQUIPMENT CORPORATION,	§	
Defendants.	§	

MEMORANDUM AND ORDER

Before the Court is Plaintiffs' Motion With Respect to the Jury Verdict (Instrument No. 105) and Defendant Mitsuboshi Cutlery's Motion for Entry of Judgment on its Counterclaim and on Plaintiffs' Claims (Instrument No. 106). Based on the jury verdict, Plaintiffs' Motion is GRANTED and Defendant's Motion is DENIED in its entirety. As both parties raise issues relevant to the Final Judgment to be entered in this cause, each is addressed below.

I. Alleged Inconsistency Between Jury's Findings on Plaintiffs' Claims of Patent Infringement, Trademark Infringement and Tortious Interference and Defendant's Claim of Breach of Contract

Defendant Mitsuboshi first contends that judgment should be entered in its favor on its Counterclaim and on all of Plaintiffs' claims because a finding of breach of

contract is inherently inconsistent with a finding of patent infringement, trademark infringement, tortious interference and unfair competition. According to Mitsuboshi, because Plaintiffs breached the contract with Mitsuboshi to manufacture the shrimp knives, Mitsuboshi was justified in infringing Plaintiffs' patent and trademarks.

Mitsuboshi cites no case law in direct support of this argument. Moreover, upon its own examination of the case law on this issue, the Court finds no case law to support Mitsuboshi's argument that the jury's finding on the breach of contract counterclaim is inherently inconsistent with the jury's findings on the patent infringement, trademark infringement and tortious interference claims. Additionally, as the evidence in the trial established, the breach of contract occurred prior to and was independent of the patent infringement, trademark infringement and tortious interference by Mitsuboshi. Given that the actions constituting the breach of contract were separate and distinct from the actions constituting the patent infringement, trademark infringement and tortious interference, the jury's findings that both parties were liable is not inconceivable. The jury's findings are not inherently inconsistent.

II. Enhanced Damages on Plaintiffs' Patent and Trademark Infringement Claims

Mitsuboshi next argues that there was no evidence introduced at the trial which would support enhanced damages on Plaintiffs' patent and trademark infringement claims and that the Court should therefore refuse to enhance the damages found by the jury. Plaintiffs, on the

other hand, contend that there was sufficient evidence introduced that Mitsuboshi willfully and wantonly infringed their patent and trademarks.

The jury found in response to Jury Question 3 and Jury Question 6 that Mitsuboshi wilfully infringed Plaintiffs' patent and trademarks. Based on those findings of fact and the Court's own determination that ample evidence was presented of Mitsuboshi's willfulness, the Court exercises its discretion under 35 U.S.C. § 284 and 15 U.S.C. § 1117 to award Plaintiffs enhanced damages. While Mitsuboshi's claims its motivation for the infringement was the belief that it had to sell the knives in order to mitigate its damages, Mitsuboshi could have mitigated its damages without infringing on Plaintiffs' patent and trademarks by selling the knives outside the United States. Mitsuboshi made no serious attempt to find a foreign buyer for the knives. Based on the totality of the circumstances surrounding this case, the Court finds that Plaintiffs are entitled to three times the damages found by the jury on their patent and trademark infringement claims.

III. Alleged Duplicative Jury Awards on Plaintiffs' Claims of Patent Infringement, Trademark Infringement and Tortious Interference

In its next argument, Mitsuboshi contends that the jury awarded duplicative damages on Plaintiffs' claims of patent infringement, trademark infringement and tortious interference. According to Mitsuboshi, because the jury found damages in the amount of $30,000 on each of

these claims, the jury obviously awarded triple damages for the same harm.

The mere fact that the jury awarded the same amount of damages on Plaintiffs' claim of patent infringement, trademark infringement and tortious interference is not evidence that the jury awarded duplicative damages. As Plaintiffs offered evidence of actual damages far in excess of that awarded by the jury, the jury could reasonably have divided up the damages among the several claims. Moreover, the jury was specifically instructed that it was to avoid awarding damages more than once for the same injury:

> You may not award compensatory damages more than once for the same injury. The Plaintiffs are only entitled to be made whole once, and may not recover more than they have lost. Of course, if different injuries are attributable to the separate claims, then you must compensate the Plaintiffs for all their injuries.

Jury Instruction 11. Because there is no evidence that the three respective damage awards of $30,000 on the patent infringement, trademark infringement and tortious interference claims constitute duplicative compensatory damages, and because there is no evidence that the jury did not follow the Court's instructions, the damage awards were not duplicative.

IV. Amount of Damages on Defendant's Breach of Contract Counterclaim

Mitsuboshi next argues that the jury's findings on damages associated with the breach of contract counterclaim should be disregarded as there was no evidence presented that Mitsuboshi suffered $89,337 in damages. According to Mitsuboshi, the evidence only supported a damages award of $236,378.52.

While the amount of damages found by the jury on the breach of contract claim was not an amount that was offered into evidence by any of the parties, it is within the province of the jury to evaluate damage evidence and determine what amount will fairly and reasonably compensate a party for its injuries. Given the latitude juries are afforded in determining damages, it is not the province of the Court to second-guess the findings of the jury. The jury's award on the breach of contract claim is supported by substantial evidence.

V. Alleged Excessiveness of Award

In its next argument, Mitsuboshi contends that the jury's award of $489,337 in actual damages and $1,850,000 in punitive damages is not supported by the evidence and therefore the jury could have only been acting out of prejudice or bias in making such an award. Based on its contention that the award is excessive, Mitsuboshi requests that the Court order a new trial or remit the amount awarded.

Evidence was introduced at the trial that Plaintiffs suffered damages of approximately $150,000 in lost

investment value, $145,000 in "but for" profits, and $400,000 in injury to goodwill. Given such damage evidence, a compensatory damage award totalling $489,337 is not excessive. Moreover, as substantial evidence was offered on Mitsuboshi's wilfull intentional violation of the patent, $1,850,000 in punitive damages is not an excessive award. The jury was properly admonished about the consideration of punitive damages. There is no indication that the jury did not follow the Court's instructions in making its punitive damages award. Because there is substantial evidentiary support for the jury's awards, neither remittitur nor a new trial is appropriate.

VI. Alter Ego

Both parties seem to argue that the Court should now determine whether Mitsuboshi Cutlery, Inc. is an "alter ego" of Mitsuboshi Cutlery Company, Ltd. As the issue of alter ego was never raised in any pleadings and as no jury questions were proposed on the issue, the Court finds the issue is not properly before the Court.

VII. Prejudgment Interest

Mitsuboshi next argues that Plaintiffs are not entitled to prejudgment interest on enhanced damages, punitive damages and attorney's fees. Mitsuboshi also argues that if prejudgment interest is allowed on any amount, it should be at the interest rate of the three-month Treasury Bill.

Prejudgment interest is recoverable on compensatory damages; it is not recoverable on enhanced damages,

punitive damages or attorney's fees. *See Beatrice Foods Co. v. New England Printing and Lithographing Co.*, 923 F.2d 1576, 1580 (D.C. Cir. 1991) (prejudgment interest is not allowed on enhanced damages in patent and trademark cases); *Ellis County State Bank v. Keever*, 1994 W.L. 278170 (prejudgment interest is not recoverable in Texas on punitive damages); *Illinois Central Railroad v. Texas Eastern Transmission Corp.*, 551 F.2d 943, 944 (5th Cir. 1977) (prejudgment interest is not recoverable on amounts that can be classified as penalties); *Law Offices of Moore & Assoc. v. Aetna Ins. Co.*, 902 F.2d 418, 422 (5th Cir. 1990) (prejudgment interest is not recoverable on attorney's fees). Thus, both Plaintiffs and Defendant may recover prejudgment interest on the compensatory damages awarded by the jury.

The applicable rate of prejudgment interest is based on the nature of the claim. Prejudgment interest on the state law claims, including Plaintiffs' unfair competition and tortious interference claims and Defendant's breach of contract claim, is based on the state rate of 10% per annum, compounded daily. *Cavner v. Quality Control Parking*, 696 S.W.2d 549, 550 (Tex. 1985). Prejudgment interest on the federal law claims, including the patent and trademark infringement claims, is based on the federally accepted three-month Treasury Bill interest rate, compounded quarterly. *See Allen Archery, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 789 (D.C. Cir. 1990). The parties have agreed that the respective rates of prejudgment interest should be calculated from June 15, 1993, the date the case was filed, to the date of judgment.

VIII. Attorney's Fees

Finally, Mitsuboshi contends that Plaintiffs are not entitled to attorney's fees. According to Mitsuboshi, because Plaintiffs entered into a contingent fee arrangement with their attorneys, a separate award of attorney's fees would allow Plaintiffs to "double dip."

Under 35 U.S.C. § 285 and 15 U.S.C. § 1117, a court is allowed to exercise its discretion to award attorney's fees to a prevailing party in "exceptional" cases. The facts of this case and the jury's consistent finding that Mitsuboshi's actions were willful, support the Court's finding that this case is exceptional, thereby justifying an award of attorney's fees. Given the time spent by Plaintiffs' attorneys and the complexity of the issues in the case, the Court finds that an award of $235,395.50 in attorney's fees is reasonable.

The existence of the contingent fee agreement between Plaintiffs and their attorneys does not make an award of attorney's fees unreasonable in this case. The contingent fee agreement provides:

> In consideration of the services rendered and to be rendered to Client by said attorneys, Clients do hereby grant, sell, assign, and convey to the said attorneys for compensation herein 40% undivided interest in and to any sum recovered whether by collection or settlement including attorney's fees awarded, if any.

Given the wording of the agreement which allows Plaintiffs' attorneys to take 40% of the total amount recovered,

and not, as Defendant suggests, 40% of the amount recovered plus any attorney's fees awarded by the court, Mitsuboshi's argument that an award of attorney's fees constitutes "double dipping" is without merit.

IX. Conclusion

Based on the jury verdict entered in this case, a Final Judgment shall be entered in accord with this Memorandum and Order in favor of Plaintiffs on their claims of patent infringement, trademark infringement, tortious interference, and unfair competition and in favor of Defendant Mitsuboshi on its breach of contract counterclaim. Damages on Plaintiffs' patent and trademark infringement claims shall be trebled to reflect the wilfulness of Mitsuboshi in infringing the patent and trademark. prejudgment interest shall be allowed only on compensatory damages found by the jury, not on enhanced damages, punitive damages, or attorney's fees.

Signed at Houston, Texas, this *19th* day of *September*, 1994.

/s/ Frances H. Stacy
FRANCES H. STACY
UNITED STATES
MAGISTRATE JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

DUNCAN MCCOY, ALEX DORSETT, and ALEX-DUNCAN SHRIMP CHEF, INC., Plaintiffs	§	CIVIL ACTION NO. H-93-1774
VS.	§	
MITSUBOSHI CUTLERY, INC., and ADMIRAL CRAFT EQUIPMENT CORPORATION, Defendants.	§	

FINAL JUDGMENT

On August 1 through August 5, 1994, this case was tried by the consent of the parties to a jury before United States Magistrate Judge Frances H. Stacy. After considering the jury's verdict and the parties' respective motions for entry of judgment it is

ORDERED that Plaintiffs Duncan McCoy, Alex Duncan and Alex-Ducan Shrimp-Chef, Inc. recover from Defendant Mitsuboshi Cutlery, Inc., $60,000 in actual damages on its claims of patent infringement and trademark infringement; plus prejudgment interest on this amount at a rate of interest equal to the average Treasury Bill interest rate for the period of June 15, 1993 to the date of this Judgment, compounded annually; plus enhanced damages in the amount of $120,000 on the patent and

trademark infringement claims; plus post-judgment interest at a rate of 5.67% on the total amount from the date of this Judgment, compounded annually, until paid. It is further

ORDERED that Plaintiffs Duncan McCoy, Alex Duncan and Alex-Duncan Shrimp-Chef, Inc. recover from Defendant Mitsuboshi Cutlery, Inc., $429,337 in actual damages on its claims of unfair competition and tortious interference with prospective business relations claim; plus prejudgment interest on this amount at a rate of 10% per annum, compounded daily, for the period of June 15, 1993, to the date of this Judgment; plus punitive damages in the amount of $1,750,000; plus post-judgment interest at rate of 5.67% on the total amount from the date of this Judgment, compounded annually, until paid. It is further

ORDERED that Plaintiffs Duncan McCoy, Alex Duncan and Alex-Duncan Shrimp-Chef, Inc. recover from Defendant Mitsuboshi Cutlery, Inc., $235,395.50 in reasonable attorney's fees and $7691.32 in reasonable costs and expenses. It is further

ORDERED that Defendant Mitsuboshi Cutlery, Inc. recover from Plaintiffs $89,337 on its breach of contract counterclaim; plus prejudgment interest at a rate of 10% per annum, compounded daily, for the period of June 15, 1993, to the date of this Judgment; plus post-judgment interest at the rate of 5.67% on the total amount from the date of this Judgment, compounded annually, until paid.

Signed at Houston, Texas, this *19th* day of *September*, 1994.

/s/ Frances H. Stacy
FRANCES H. STACY
UNITED STATES
MAGISTRATE JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

DUNCAN MCCOY, ALEX DORSETT and ALEX-DUNCAN SHRIMP CHEF INC.	§	CIVIL ACTION NO. H-93-1774
v.	§	
MITSUBOSHI CUTLERY INC. and ADMIRAL CRAFT EQUIPMENT CORPORATION	§	JURY TRIAL DEMANDED

PLAINTIFFS' FIRST AMENDED COMPLAINT

Plaintiffs, Duncan McCoy, Alex Dorsett and Alex-Duncan Shrimp Chef Inc. file this their First Amended Complaint against Mitsuboshi Cutlery Inc. (hereinafter "Mitsuboshi") and Admiral Craft Equipment Corporation (hereinafter "Admiral"). As claims, and as basis for issuing a temporary restraining order, temporary injunction and permanent injunction, Plaintiffs state as follows:

I.

Plaintiffs Duncan McCoy and Alex Dorsett are individual citizens of the State of Texas. Plaintiff Alex-Duncan Shrimp Chef Inc. is a Texas corporation with its principal place of business in Texas. Defendant Mitsuboshi is a corporation that is believed to be incorporated in a jurisdiction other than the State of Texas and believed to have its principal place of business in the State of New Jersey. Defendant Mitsuboshi may be served with process by serving any officer, managing or general

agent in accordance with the Federal Rules of Civil Procedure at its offices at 2200 Fletcher Avenue, Fort Lee, New Jersey 07024 or by serving the Secretary of State of the State of Texas pursuant to TEX. CIV. PRAC. & REM. CODE 17.026 and/or 17.044. The Secretary of State may provide notice to defendant Mitsuboshi at 2200 Fletcher Avenue, Fort Lee, New Jersey 07024 in accordance with TEX. CIV. PRAC. & REM. CODE 17.045. Defendant Admiral is a corporation believed to be incorporated under the laws of a jurisdiction other than the State of Texas and believed to have its principal place of business in the State of New York. Admiral may be served with process, either directly by serving any officer, managing or general agent or by serving the Secretary of State of the State of Texas pursuant to TEX. CIV. PRAC. & REM. CODE 17.026 and/or 17.044 any may be served or provided notice pursuant to TEX. CIV. PRAC. & REM. CODE 17.045 at 131-05 Fowler Avenue, Flushing, New York 11355.

II.

Venue is proper in this judicial district pursuant to 28 U.S.C. 1391 and/or 1400(a) and/or ancillary and/or pendent venue principles. This Court has subject matter jurisdiction over this case as it arises under the federal patent laws, arises under the federal trademark laws, and on the basis of complete diversity of citizenship between Plaintiffs and all Defendants with the matter in controversy exceeding $50,000, excluding interest and costs. Subject matter jurisdiction is proper under 28 U.S.C. 1338(a), 28 U.S.C. 1338(b), 28 U.S.C. 1332, 28 U.S.C. 1331, and/or ancillary and/or pendent jurisdiction principles.

III.

Plaintiffs McCoy and Dorsett are the owners and holders of a patent covering a knife for de-veining, peeling and butter flying shrimp (hereinafter referred to as the "shrimp knife"). Plaintiffs John D. McCoy and Alex G. Dorsett received patent number 4,759,126 dated July 26, 1988 covering the shrimp knife. Such patent is valid and existing. At all relevant times, plaintiffs McCoy and Dorsett have been the owners of such patent which was duly and lawfully issued to them. Any and all conditions precedent to enforcing such valid and duly authorized patent have been satisfied. A true and correct copy of such patent is attached hereto as Exhibit "A" to this Complaint and incorporated herein.

IV.

After obtaining the patent, Plaintiffs Duncan and Dorsett allowed and agreed to permit Plaintiff Alex-Duncan Shrimp Chef Inc. to distribute and manufacture such patented shrimp knife. In order to better market the shrimp knife, Alex-Duncan Shrimp Chef Inc. applied for and received two registered trademarks pursuant to the Trademark Act of 1946. Alex-Duncan Shrimp Chef Inc. is the owner and holder of Trademark Registration No. 1,702,878 registered July 28, 1992 and Trademark Registration No. 1,687,589 registered May 19, 1992. True and correct copies of such valid and existing trademarks are attached hereto as Exhibits "B" and "C" and incorporated herein for all purposes. Such trademarks are duly registered as required by law and any and all conditions precedent to their enforcement have been satisfied.

V.

After the patent was issued, Mitsuboshi contracted to manufacture the shrimp knife. The knife was to be manufactured in accordance with the specifications supplied to Mitsuboshi so that it would be covered by the patent and could be marketed, as was duly authorized by the patent holders. Presently, Alex-Duncan Shrimp Chef is authorized to sell the shrimp knives by the patent holders and is attempting to distribute them in a manner that is authorized by the patent owners. Because Mitsuboshi knew that it was being asked to make a patented item, it required that a portion of its die costs be paid for in the transaction and also required advance payment or security for payment, which it received. Mitsuboshi has manufactured and supplied certain quantities of the shrimp knives as requested. Some such shrimp knives have been sold as authorized by the patent holders and/or by Plaintiff Alex-Duncan Shrimp Chef Inc. and it is hoped that other shrimp knives will be sold in the future. In support of each of the following causes of action, Plaintiffs incorporates the above factual allegations. Plaintiffs further shows that they are damaged, in addition to the questions raised hereinabove based on each of the following causes of action and in excess of the jurisdictional limits of this Honorable Court. Plaintiffs' actual damages for each of the following causes of action are no less than $1,500,000.00.

VI.

Common Law Fraud

Plaintiff herein asserts a cause of action for Texas Common Law Fraud because of the fraud committed by all of the Defendants named herein against the Plaintiffs. The scheme and course of conduct of each of the said Defendants in carrying out the acts herein alleged create joint and several liability for the injuries and damages incurred by Plaintiffs as a result of the fraudulent activities. In the process of misappropriating the opportunity of the Plaintiffs, the Defendants made false, misleading immaterial representations with knowledge of their falsity and with reckless disregard for the truth knowing full well that the Plaintiffs would rely on such false, misleading immaterial misrepresentations (or omissions) to their detriment harm and damage. Because of such acts, not only have the Plaintiffs suffered actual damages but Plaintiffs also plead for an award of punitive damages in an amount no less than five times the actual damages and as a result of such conduct on part of the Plaintiffs, Plaintiffs have incurred substantial financial injury, the exact amount of which is presently unknown.

VII.

Trade Dress

Plaintiffs further assert a cause of action under the Texas Common Law in the applicable Texas Civil Statutes for trade dress against the Defendants and each of them in that in manufacturing Plaintiffs knives and copying the knife in every detail even down to, in some instances,

Plaintiff's own patent number on the knife manufactured by Defendant with the intent to capture the Plaintiff's marketing business and knowing full well that such acts will be calculated to do so, the Defendants and each of them have violated the common law and statutory laws of the State of Texas of trade dress. As a result of Defendants' actions, a very significant likelihood of confusion in the minds of customers seeking to purchase this specific shrimp knife has arisen. Defendants are seeking to confuse customers by presenting the shrimp knife in such a way that an ordinary purchaser might think he is purchasing an Alex-Duncan Shrimp Chef Knife when in fact, he is acquiring a product marketed by Admiral which is deceptively similar to the Plaintiffs' product.

In addition, because of the acts of the Defendants, Defendants have approximately caused damages to the Plaintiff in an amount yet to be determined and Plaintiff, because of the intentional and reckless acts that the Plaintiff has further suffered punitive damages in an amount yet to be determined but in any event, no less than five times the amount of the actual damages herein.

VIII.

Dilution of Market Share

The actions of Defendants complained of above have caused Plaintiffs to lose a significant portion of their rightful market share. The demand in the market for Plaintiffs' shrimp knife is not infinite and any efforts by Defendants to illegally market any such knives will naturally lead to a dilution of Plaintiffs' market share.

IX.

Breach of Fiduciary Duty and/or Confidential Relationship

In contracting with Mitsuboshi to manufacture the knives that Plaintiffs actually ordered and the subsequent payment by Plaintiffs for those knives, a fiduciary duty arose between Plaintiffs and Defendant Mitsuboshi. Defendants have breached that duty by manufacturing knives not ordered by Plaintiffs and attempting to illegally market the knives it took upon itself to produce. Furthermore, Mitsuboshi has breached the confidential relationship between them and Plaintiffs by, among other things, going behind Plaintiffs' back and using the specifications of the shrimp knife and trademarks associated with it to manufacture additional knives not contracted for.

X.

Unjust Enrichment

As a result of actions complained of above, Defendants have been unjustly enriched in that Mitsuboshi created additional business for itself by producing knives that were not contracted for by Plaintiffs and Admiral in that they received the benefit of artificially low prices on knives it marketed for Mitsuboshi.

XI.

Breach of Warranty and Good Faith

Plaintiffs entered their relationship with Mitsuboshi in good faith, advising Mitsuboshi of the quantities they desired for them to manufacture and upon manufacture, purchased the contracted for knives. Mitsuboshi breached this duty to deal in good faith by producing knives not asked of it by Plaintiffs and subsequently illegally attempting to market such knives. Furthermore, by agreeing to manufacture the knives actually contracted for, Mitsuboshi impliedly warranted, among other things, that it will produce the knives contracted for and only those knives.

XII.

Deceptive Trade Practices

Defendants' unconscionable acts have been in violation of the Texas Deceptive Trade Practices-Consumer Protection Act § 17.41 et sec, including but not limited to:

1. Passing off goods or services as those of another.
2. Causing confusion or misunderstanding as to the source, sponsorship, approval, or certification of goods or services.
3. Causing confusion or misunderstanding as to affiliation, connection, or association with, or certification by another.
4. Representing that goods or services have sponsorship, approval, characteristics, ingredients, uses, benefits, or quantities which they do not have or that a

person has a sponsorship, approval, status, affiliation, or connection which he does not.

XIII.

Tortious Interference with Actual or Potential Contracts or Business Relations

The activities of Admiral and Mitsuboshi are causing irreparable harm to Plaintiffs. Plaintiffs have been undertaking to develop and build a national distribution network as well as to gain access to national retailers for the sale of the shrimp knife. As a result of the actions of Defendants, the attempts to develop a successful marketing scheme are being disrupted and Plaintiffs are suffering irreparable harm. distributors are aggravated by the fact that the shrimp knives are being marketed for less than they are being sold by the authorized distributor. As a result, efforts to obtain and keep distributors are being undermined and thwarted. The price at which the shrimp knives are being sold by Admiral is only very slightly above the charge per knife which is paid to Mitsuboshi in order to have the knives manufactured and delivered to a warehouse in Houston, Texas. Moreover, national retail chains and other reputable concerns may not wish to purchase the shrimp knife when they see it can be obtained elsewhere for a much lower price or when they see the confusion in the marketplace caused by Defendants' actions. The harm that is being caused, and will continue to be caused in the future, is on-going and it would be difficult, if not impossible, to determine precisely the monetary loss which is being caused by the on-going activities of Defendants. Moreover, Defendants use

of the patent and trademarks is unauthorized and is depriving of plaintiffs of the rights and benefits guaranteed to them by the Federal Patent and Trademark Statutes. Unless Defendants are restrained by this Court, the tortious interference with Plaintiffs' actual or potential contracts or business relations will cause the efforts of Plaintiff Alex-Duncan Shrimp Chef, Inc. to market the shrimp knife to be ruined, if they have not then already. Defendants are liable for actual and punitive damages for interference with contractual relationships and/or interference with prospective contracts or with business relationships.

XIV.

Passing Off

The activities of Defendants in unlawfully appropriating and using the patent and trademark are causing and can be expected to continue to cause damage to Plaintiffs. The business reputation of Plaintiffs is being damaged and sale of the shrimp knife, along with profits therefrom are being lost. There is confusion being engendered in the marketplace as to who is authorized to sell the shrimp knives due to Admiral's illegal passing off of such knives as ones which it is entitled to sell.

XV.

Lost Sales and Profits

As a result of the acts complained above, Plaintiffs have lost sales of the shrimp knife, along with profits therefrom. These losses have been sustained and will

continue to be sustained unless Defendants are prevented from doing so.

XVI.

Misappropriation of Business Opportunity

As Defendants no doubt realize, the shrimp knife has enormous potential. It is submitted that the potential for future sales of the shrimp knife may have played a roll in the decisions of Defendants to enter into their unlawful course of dealing so as to unlawfully tap potential sales for themselves. The shrimp knife, as a result of Plaintiffs' marketing efforts, has received rave reviews at trade shows. It has been used by famous chefs, including Julia Childs and Justin Wilson. The shrimp knife won a first prize at the Los Angeles Gourmet Show in 1991 and was written up in the August 1991 Gourmet Retailer Magazine. The shrimp knife has received excellent reviews or favorable publicity in various places across the nation including in Louisiana where it was shown at the Louisiana Restaurant Association food service industry trade show and our nation's capital where it was written up in the Washington Post, in the Houston Chronicle, and Merle Ellis' Nationally syndicated column "The Butcher" and the Chicago-Sun Times, and in the Marin Independent Journal. In short, Defendants have misappropriated a product that has considerable potential and are thereby misappropriating a business opportunity which would otherwise have been capitalized upon by the Plaintiffs. Furthermore, Defendants are interfering with, and destroying efforts by Plaintiffs to capitalize on the potential of this product.

XVII.

Illegal Dumping

In addition to those shrimp knives, which have been sold as described above, Mitsuboshi manufactured some additional shrimp knives After Mitsuboshi manufactured such knives, its intended outlook for such knives could not or would not pay for them and thereafter, Mitsuboshi repeatedly attempted to sell those shrimp knives by contacting Mr. Duncan and requesting that the knives be purchased. Mitsuboshi's efforts to sell all of the knives by contacting Plaintiff Duncan were consistently confused although some were eventually purchased. Eventually, knowing this was improper and illegal to do so, Mitsuboshi apparently decided to dump the knives into the United States' market and provided them to Admiral Craft Equipment Corporation which, on information and belief, either purchased them from Mitsuboshi or obtained knives on some sort of consignment arrangement, the details of the dealings with Mitsuboshi being as yet unknown to Plaintiffs. This dumping by Mitsuboshi is illegal and has hurt Plaintiffs in that the product was being sold at a price considerably lower than Plaintiffs would have otherwise have sold it at.

XVIII.

Patent and Trademark Infringement

From the information learned by Plaintiffs, it appears that Defendant Admiral Craft Equipment Corporation (hereinafter "Admiral"), in direct and knowing violation of the patent and trademarks discussed above, undertook

to advertise, market, sell, and attempt to sell the identical patented shrimp knife in its Admiral publication. Such publication is distributed, on information and belief, nationwide, including into this judicial district, and is consulted by numerous dealers and potential purchasers of the shrimp knife. Despite having received knives, which, from information learned by a party that bought knives through Admiral, shown under face the above-mentioned U.S Patent No. 4,759,126, Admiral is alleged to have knowingly and intentionally infringed such patent as well as the above-mentioned trademarks Plaintiff has learned from a reliable source that Admiral delivers the shrimp knives to its customers with the Plaintiffs' patent number appearing on the blade. In short, it is believed that Admiral is simply selling the patented product made by Mitsuboshi. It is believed that Admiral is simply selling the patented product made by Mitsuboshi. Its advertising demonstrates Admiral's knowing violation of the law. A true and correct copy of one such advertisement is attached hereto as Exhibit "D". That advertisement may be contrasted with Exhibit "E" hereto which is a true and correct copy of the front of a shrimp knife package as actually marketed through Alex-Duncan Shrimp Chef. By comparing the two, one can see that Admiral undertook modifications which show its knowing violation of the law. Despite the fact that the knives which it furnishes to customers show, according to reliable information, the patent number on the blade of the knife, Admiral removed that information in the pictures which it circulates in its publication. It also doctored its ads by removing the language "Alex-Duncan" from the circled portion of the circle stamp shown in the picture on the blade of

the shrimp knife, leaving only the words "Shrimp Chef" in that portion of the ad. However, from what Plaintiffs have been informed, the knives furnished to customers who ordered through Admiral have the complete trademark logo on their fact. Moreover, Admiral did not even bother to remove the trademark "Dancing Shrimp" from the advertisement. It appears on the face of the advertisement which Admiral has been using to solicit customers. Additionally, the Alex-Duncan Shrimp Chef logo, which is trademarked, also appears on the packaging pictured in the advertising, on the front and back, as it does in the actual product marketed by Alex-Duncan Shrimp Chef.

In short, the evidence leads to the conclusion that there was a knowing infringement of both the patent and the trademarks by Admiral or, in the alternative, there certainly were circumstances under which Admiral knew or should have known about the trademark and patent. If Admiral's actions were not deliberate, which it appears that they surely were, they were reckless. Defendants have infringed and are still infringing the patent of Plaintiffs McCoy and Dorsett. Each Defendant has committed patent infringement as defined by 35 USC § 271A and/or has actively induced infringement of the patent so as to be liable as an infringer under 35 USC § 271B. Defendants are subject to being enjoined for patent infringement and also are liable for all recoverable amounts and damages, actual and punitive, including, without limitation, actual and treble damages under 35 USC § 284 and all recovery allowed under 35 USC § 289. Defendants' violations of the trademark laws would include, but not necessarily be limited to, Defendants' violation of, or participation or aiding and abetting violation of, or conspiracy or action

in concert to violate, 15 USC §§ 1114(1)(a) and/or 1114(1)(b) and/or 1125. Each Defendant is therefore liable for all relief available under USC § 1117 and is liable to Plaintiff Alex-Duncan Shrimp Chef for all profits received by it, for all other damages to such Plaintiff, for costs of suit, for up to three times actual damages, for attorney's fees, and for all amounts in excess of actual profits as would be just under the circumstances. Given the flagrant violations of the law, Plaintiff requests all amounts to which it is entitled, including the gross amount obtained by each Defendant in violation of the law.

XIX.

Conspiracy to Violate the Patent and Trademark Laws

The actions of Mitsuboshi and Admiral complained of above are alleged to have been knowing and intentional, or alternatively reckless and taken in the flagrant disregard of the rights of the patent holders, and trademark owner; and, such acts justify an award of punitive or exemplary damages or statutory or punitive or treble damages, which are hereby sought. Based on information and belief, it is asserted that the Defendants have conspired with each other, and possibly as yet unknown co-conspirators, to violate the patent laws and the trademark laws and to have acted in concert to do so. Accordingly, each is jointly and severally responsible for all damages and actions of the other and should be held liable and accountable as such.

XX.

Unfair Competition

The actions of Mitsuboshi and Admiral complained of above amount to the tort of unfair competition. Based on information and belief, it is asserted that the Defendants have conspired with each other, and possibly as yet unknown co-conspirators, to engage in unfair competition and/or have acted in concert to do so. Accordingly, each is jointly and severally responsible for all damages and actions of the others and should be held liable and accountable as such.

XXI.

Negligence, Gross Negligence, Knowing or Intentional Conduct

The actions of Mitsuboshi and Admiral complained of above are negligence, gross negligent [sic], knowing, or intentional. This conduct, justifies an award of punitive or exemplary damages or statutory punitive or treble damages, which are hereby sought.

XXII.

Violation of the Lanham Act

The activities of Defendants complained of above are in violation of the Lanham Act, 15 USC §§ 1051 – 1027. Defendants should therefore be required to pay Plaintiff Alex-Duncan Shrimp Chef all damages, actual and punitive, and all other amounts recoverable for violations of this act.

XXIII.

Accounting

Plaintiffs request an accounting of all amounts received as a result of unauthorized sale of shrimp knives and an order awarding all such amounts to which they are entitled, along with any other relief to which they are entitled. Defendants are liable in damages to Plaintiffs for all actual damages suffered by Plaintiffs and for an accounting for, and to pay over, all sums that have been received by sale of shrimp knives in violation of the laws prohibiting trademark infringement, patent infringement, unfair competition, or alternatively such portion thereof as to which they are entitled.

XXIV.

Temporary and Permanent Injunction

Plaintiffs requires [sic] a temporary injunction and permanent injunction to prevent infringement of the above-referenced patent and to prevent misuse, abuse, and infringement of the trademarks. Further, Defendants should be required to pay punitive damages in an amount determined by the finder of fact but in no case less than five times actual damages for Defendants' knowing, deliberate, and intentional violation of the laws prohibiting patent infringement, trademark infringement, unfair competition, tortious interference with contractual relations, and/or tortious interference with business relations or prospective contractual relationships.

XXV.

Costs

Defendants are liable for all attorney's fees of Plaintiffs', costs that may be recovered pursuant to applicable law, and are liable for pre-judgment interests and post-judgment interests to the maximum extent allowed by law. Further, after trial of this matter an accounting and an award of such actual and punitive damages as may be shown under the law is requested along with attorney's fees, post and pre-statutory damages, punitive damages, pre and post-judgment interests, and any other relief, at law or in equity, to which Plaintiffs may be justly entitled.

XXVI.

Temporary Restraining Order or Temporary Injunction

Plaintiffs have previously called upon Defendant Mitsuboshi to try to stop what is happening. Its efforts met with an arrogant stonewall response. The responsive that has been received is hereto as Exhibit "F". No explanation, as promised by that response, was ever forthcoming. Given the underhanded way in which Admiral is believed to have doctored its advertisement, it would serve no useful purpose to allow Defendants to delay be [sic] seeking to work this matter out without intervention of this Honorable Court. Indeed, Plaintiffs are aware that when Admiral was contacted and asked if it knew the item was patented, Admiral's representative simply denied it despite the fact that Admiral is apparently distributing shrimp knives that show the patent number on the blade. Plaintiffs suspected Admiral has violated

patent and/or trademark rights of others in the past. The wrongs of Defendants are continuing and are expected to continue unless restrained by this Court. Plaintiffs requests [sic] a temporary restraining order and/or temporary injunction to immediately and continually restrain and prevent either Defendant from marketing, disposing of, transferring, assigning, shipping, selling, attempting to sell, or otherwise directly or indirectly attempting to dispose of or market any shrimp knives in their possession, custody, or control, and prohibit any further distribution of publications showing the patented knife, trademarks, or anything that is substantially similar to the trademarks. Further, after trial, a final and permanent injunction on the terms requested for temporary relief should be granted and any remaining shrimp knives in Defendants' possession, custody, or control, ordered turned over to the Plaintiffs. A temporary restraining order should promptly issue or, alternatively, a hearing should be set in very short order for a temporary injunction. To ensure notice to Defendants, Plaintiffs' counsel has directed that Defendant Mitsuboshi be telecopied a copy of this pleading at its facsimile number of 201-947-9428 and Admiral at its facsimile number of 718-539-8732. Upon receiving a call that this case has been filed which call is expected to be made promptly after filing this case.

XXVII.

Declaratory Judgment

Plaintiffs further request a declaratory judgment declaring their rights and Defendants' violation thereof

and an award of attorney's fees under the Federal and Texas Declaratory Judgments Acts.

XXVIII.

Reasonable Royalty

Plaintiffs seek damages adequate to compensate for the infringement of its patent and trademarks, but in no event less than a reasonable royalty for the use of the invention and the trademarks by the Defendants together with interests and costs as allowed by 35 USC § 284 and treble damages, and all other amounts recoverable under 35 USC §§ 284 and 289 under the Lanham act including 15 USC § 1117 and/or under the common law.

XXIX.

JURY DEMAND

Plaintiffs demand a jury trial.

WHEREFORE, Plaintiffs pray that this Court issue citation to the Defendants, that a show cause order issue, that a temporary restraining order issue, or that this court order a temporary injunction to be issued restraining the Defendants from continuing to violate Plaintiffs' patent and trademarks and that Plaintiffs' recover both actual and exemplary damages and attorney's fees as allowed by law and statutory damages trebled, that the declaratory judgment be entered and all other relief allowed by statutes set out above, costs of court, pre and post judgment interests, and all other relief, at law or in equity, to which they or any of them may be entitled.

Respectfully submitted,

By: /s/ Lee N. Joseph
Lee N. Joseph
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State Bar No. 18115700
3000 Smith Street
Houston, Texas 77006
Telephone: 713/521-9797
Telecopier: 713/521-3125

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above foregoing instrument has been sent by certified mail, return receipt requested on this 1st day of December, 1993: to

Ms. Michele N. Tanaka
Arent Fox
105 Connecticut Ave. N.W.
Washington, D.C. 20036-5339

Mr. Jeffrey Russ
Stein, Brecher & Ross
100 East 42nd Street
16th Floor
New York City, N.Y. 10017

/s/ Lee N. Joseph
Lee N. Joseph

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

DUNCAN MCCOY, et al.,	)	
	)	
Plaintiffs	)	**Civil Action**
v.	)	**No. H-93-1774**
MITSUBOSHI CUTLERY INC., et al.,	)	
	)	
	)	
Defendants.	)	
	)	

ANSWER TO FIRST AMENDED COMPLAINT AND COUNTERCLAIM OF DEFENDANT-COUNTERCLAIM PLAINTIFF MITSUBOSHI CUTLERY, INC.

Defendant-Counterclaim Plaintiff Mitsuboshi Cutlery, Inc. ("Mitsuboshi"), by its undersigned attorneys, answers the First Amended Complaint in the above-entitled action as follows:

FIRST DEFENSE

As its first defense, Mitsuboshi states as follows:

1. Mitsuboshi is without knowledge or information sufficient to form a belief as to the truth of the allegations of the first sentence of Paragraph 1 of the First Amended Complaint and therefore denies them. Mitsuboshi admits only that it is a corporation incorporated in a jurisdiction other than the State of Texas and admits that the third sentence of Paragraph 1 of the Complaint purports to assert service of process procedures. Mitsuboshi is without knowledge or information sufficient to form a belief

as to the truth of the remaining allegations of Paragraph 1 of the First Amended Complaint and therefore denies them.

2. Mitsuboshi admits only that Paragraph 2 of the First Amended Complaint purports to assert venue under 28 U.S.C. §§ 1391 and/or 1400(a) and/or ancillary and/or pendent venue principles, and admits only that it purports to assert jurisdiction under 28 U.S.C. §§ 1331, 1332, 1338 and/or ancillary and/or pendent jurisdiction principles.

3. Mitsuboshi admits only that plaintiffs McCoy and Dorsett received U.S. Patent No. 4,759,126 dated July 26, 1988 for a knife for deveining, peeling and butterflying shrimp ("the '126 patent"). Mitsuboshi denies the remaining allegations of Paragraph 3 of the First Amended Complaint.

4. Mitsuboshi admits only that plaintiff Alex-Duncan Shrimp Chef, Inc. received U.S. Trademark Registration No. 1,702,878, registered on July 28, 1992 for a knife that peels, deveins and butterflies shrimp in one step and U.S. Trademark Registration No. 1,687,589, registered on May 19, 1992 for a knife that peels, deveins, and butterflies shrimp in one step. Mitsuboshi denies the remaining allegations of Paragraph 4 of the First Amended Complaint and denies that Alex-Duncan Shrimp Chef Inc. manufactured the shrimp knives at issue.

5. Mitsuboshi admits only that plaintiffs contracted with it to manufacture the shrimp knife and that plaintiffs reimbursed it for a portion of its die costs for the manufacture of the knives plaintiffs contracted for. Mitsuboshi further admits that it manufactured and sold certain

quantities of the shrimp knives to plaintiffs. Mitsuboshi denies the remaining allegations of Paragraph 5 of the First Amended Complaint.

6. This Paragraph has been dismissed and a response thereto is not required.

7. Mitsuboshi denies the allegations of Paragraph 7 of the First Amended Complaint.

8. This Paragraph has been dismissed and a response thereto is not required.

9. This Paragraph has been dismissed and a response thereto is not required.

10. This Paragraph has been dismissed and a response thereto is not required.

11. This Paragraph has been dismissed and a response thereto is not required.

12. This Paragraph has been dismissed and a response thereto is not required.

13. Mitsuboshi denies the allegations in Paragraph 13 of the First Amended Complaint.

14. This Paragraph has been voluntarily dismissed by Plaintiffs and a response thereto is not required.

15. Mitsuboshi denies the allegations of Paragraph 15 of the First Amended Complaint.

16. This Paragraph has been dismissed and a response thereto is not required.

17. Mitsuboshi denies the allegations of Paragraph 17 of the First Amended Complaint.

18. Mitsuboshi is without knowledge or information sufficient to form a belief as to the truth of the allegations in the first full paragraph of Section XVIII of the First Amended Complaint since they relate exclusively to the conduct of another party and therefore denies them. Mitsuboshi also is without knowledge or information sufficient to form a belief as to the truth of the allegations in the first and second sentences of the second paragraph of Section XVIII of the first Amended Complaint since they relate exclusively to the conduct of another party and therefore denies them. Mitsuboshi denies the remaining allegations of Section XVIII of the First Amended Complaint.

19. This Paragraph has been dismissed and a response thereto is not required.

20. Plaintiffs have voluntarily dismissed allegations of conspiracy and, therefore, a response to this paragraph is not required.

21. This Paragraph has been dismissed and a response thereto is not required.

22. Mitsuboshi denies the allegations of Paragraph 22 of the First Amended Complaint.

23. This Paragraph has been dismissed and a response thereto is not required.

24. This Paragraph has been dismissed and a response thereto is not required.

25. Mitsuboshi denies that plaintiffs are entitled to their attorneys' fees, costs, prejudgment interest or post-judgment interest or that plaintiffs are entitled to any recovery whatsoever.

26. This Paragraph has been dismissed and a response thereto is not required.

27. Mitsuboshi denies that plaintiffs are entitled to a declaratory judgment under any theory.

28. Mitsuboshi denies that plaintiffs are entitled to any damages recovery.

29. Mitsuboshi denies each and every allegation in the First Amended Complaint which is not expressly admitted herein.

SECOND DEFENSE

As its second defense, Mitsuboshi states that the First Amended Complaint fails to state a claim upon which relief can be granted.

THIRD DEFENSE

As its third defense, Mitsuboshi states that the Court lacks subject matter jurisdiction over this action.

FOURTH DEFENSE

As its fourth defense, Mitsuboshi denies that plaintiffs were damaged as alleged in the First Amended Complaint and calls upon plaintiffs for strict proof of each and every item of alleged damage. Mitsuboshi further denies being indebted to the plaintiffs for any sum whatsoever.

FIFTH DEFENSE

As its fifth defense, Mitsuboshi states that U.S. Patent No. 4,759,126 is invalid pursuant to 35 U.S.C. §§ 102 and/or 103.

SIXTH DEFENSE

As its sixth defense, Mitsuboshi states that it has not infringed any claim of the '126 patent.

SEVENTH DEFENSE

As its seventh defense, Mitsuboshi states that the '126 patent was procured by inequitable conduct before the United States Patent and Trademark Office and is therefore invalid.

EIGHTH DEFENSE

As its eighth defense, Mitsuboshi states that it has not infringed U.S. Trademark Reg. Nos. 1,702,878 or 1,687,589.

WHEREFORE, Mitsuboshi Cutlery, Inc. having fully answered, prays for judgment against the Plaintiffs and in its favor and that the First Amended Complaint be dismissed and that it be awarded costs and attorneys' fees provided by law and such further relief as this Court may deem proper.

COUNTERCLAIM

Mitsuboshi Cutlery, Inc. ("Mitsuboshi"), for its counterclaim continues it allegations set forth in its Counterclaim filed its Answer to Complaint and Counterclaim of Defendant Mitsuboshi Cutlery, Inc. dated August 9, 1993.

WHEREFORE, Mitsuboshi respectfully requests that the court enter judgment in its favor and against Alex-Duncan in an amount equal to the remainder of the contract price, award Mitsuboshi its costs, expenses and reasonable attorneys' fees, and grant such other relief as the Court may deem just and proper.

Respectfully submitted,

/s/ William W. Goodrich, Jr.
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(Attorney In Charge)
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/s/ Tim Cook
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Counsel for Mitsuboshi
Cutlery, Inc.

Dated: July 25, 1994

I. STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the District Court lack subject matter jurisdiction where the allegedly infringing sale of patented shrimp knives took place in Japan?

2. Did the magistrate judge err in denying defendant Mitsuboshi's Motion for Judgment as a Matter of Law –

a. where the shrimp knives resold by Mitsuboshi after plaintiffs' breach of contract were genuine goods? (Trademark infringement and unfair competition counts.)

b. where Mitsuboshi, plaintiffs' contract manufacturer, resold 6,456 out of 130,000 knives to recover a portion of its loss following the plaintiffs' breach of contract? (Patent infringement count.)

c. where plaintiffs introduced no evidence of specific intent by Mitsuboshi to injure the plaintiffs and where Mitsuboshi had a business justification for selling the knives? (Tortious interference count.)

3. Did the trial court err in denying Mitsuboshi's alternative motion for a new trial where the magistrate judge –

a. received a Consent Judgment against a settling co-defendant as evidence of infringement by Mitsuboshi;

b. received exhibits constituting settlement correspondence between the co-defendant and Mitsuboshi; and

c. received evidence of lost profits where the plaintiff corporation had never shown a profit in its entire existence?

4. Did the magistrate judge improperly award plaintiffs the maximum possible enhancement of damages and attorneys' fees given the fact and circumstances of this case?

J.A. 800, F14, line 19 – 800 F.15, line 7
TESTIMONY OF DUNCAN McCOY

BY MR. BISHOP:

Q Mr. McCoy, the purchase orders and so forth, does that show in Exhibit #6 where you actually – how many ordered on each occasion that you ordered knives?

A Yes, sir, Yes, it does.

Q Now, did you have some start-up expenses with this company?

A Yes, I did.

Q What kind of start-up expenses did you have?

A I had to pay for tooling, as we had visited earlier, tools, dies. I had to pay for the etching, I had to pay for the box, to paint the box, I had to pay for the die to cut the box. I had to pay for the mold that makes the mold for the blister card. I had to pay for the – I had to pay for everything, literally pay for everything I – in advance.

J.A. 802.3, line 2 – 802.5, line 2

Q Okay. Now, let's turn our attention, if we could, to ATD Marketing. Do you know who ATD – Who are the principles of ATD Marketing?

A ATD Marketing Group was a rep. They were a rep – they were a marketing firm that I met at one of the trade shows that I had gone to. And there was a guy named Sonny Beckham who was with ATD Marketing Group. He was supposed to be the ramrod of the thing. They had an attorney that was a part of the group who was Jeffrey Bradpeace. And then they had another guy

named Joe Armbrewster who – Joe Armbrewster ran Armstrong Tool and Die.

Q All right.

A Well, Sonny Beckham was the marketing director for Armstrong Tool and Die.

Q All right.

A So, he formed a corporation which made –

Q All right.

A – the ATD Marketing Group.

Q Did you ever authorize ATD marketing to buy these knives and re-sell them in the United States?

A Never.

Q Was ATD Marketing ever your agent or your company's agent to re-sell these knives in the United States?

A No, he was not.

MR. GOODRICH: Objection, calls for a legal conclusion.

THE COURT: What was the question?

MR. BISHOP: Did – I'll rephrase it, Your Honor.

BY MR. BISHOP:

Q Did you ever authorize ATD Marketing to be your agent to sell or to make an agreement with Mitsuboshi Cutlery to sell or – the knives in the United States?

A No, I did not.

Q What did you agree with ATD Marketing that they could do?

A What ATD Marketing Group was actually supposed to do was put together a marketing program. I'd always been in the restaurant business and I – he liked the shrimp knife. He was putting together a marketing program to make an info-commercial and to get national recognition for the shrimp knife throughout the United States. He was in charge of putting the TV commercial together, the different network of manufacturers reps and he would be paid 10 to 15 percent of what he sold. He was actually in charge of getting sales orders, sending them to us. We would fill the purchase order out and then when we got paid we would send him 10 to 15 percent of – you know, for his commission.

Q And he was just like any other sales representatives, get a commission on the sales?

A We've got a bunch of them, yeah.

Q Did –

A They write the orders. They may be the sales rep for Oshman's, Academy, or anybody. They take the order, send to us the order, we fill the order and then we send the rep, you know, his commission from interior street salesman.

J.A. 802.6, line 13 – 801.8, line 21

BY MR. BISHOP:

Q Mr. McCoy, why did you – What was the purchase order? Why would you send a purchase order –

A To –

Q – for these knives?

A Say it again now?

Q Why would you send a purchase order for these knives?

A With the anticipation of the sales and Mitsuboshi was a pretty good sized – I mean, I couldn't take in and order knives today and then start production tomorrow. It was like a 30-day, 60-day, 90-day lead time before they would even get me into line – in line for production. So, we were – Sonny Beckham was working, or ATD Marketing Group, was working on this particular TV commercial and it was to air sometime in May or June. So, if I had placed an order in January – January, February, March, they might started on it in April or May because it was like a 30-, to 60-, 90-day lead time on a purchase order because of their volume of business and –

Q Were you required to come up with the money to pay for these before they made them?

A Yes, I was.

Q And how much was that? I believe the second page of –

A Possibly $150,000. Hundred and –

Q Did you do that?

A No, I did not.

Q Why didn't you?

A I canceled the order.

Q Why did you cancel the purchase order?

A Sonny Beckham never gave me one purchase order from Wal-Mart, K-Mart or anybody else. He said he had all of these purchase orders. So I called Ryuzo in New York and told him that Sonny Beckham had not come across with any purchase orders whatsoever. I told him that he hadn't sold one knife or sent me a purchase order for one knife, and that we needed to stop this particular purchase order, that the advertising had not been completed. That Mr. Beckham was giving me excuses that he was having problems with getting the TV commercial done and stuff like that. so, I told him to hold off on the purchase order until they heard from me – until they got further instructions about it.

Q All right. Did Mr. – Did Ryuzo tell you at that time that they'd already made these knives?

A No, he did not.

Q Did he tell you at that time that you couldn't cancel this order after you'd made it?

A No, he did not.

Q And did he ever, at any time, tell you that you were going to have to pay for these knives anyway?

A As far as I understood from him that they were soon to start manufacturing. And that before they would

manufacture the order that they needed an irrevocable letter of credit, in Japan, with my account number on it, as things made happened in the previous years, before they could manufacture this order.

Q All right. Did you ever give them that irrevocable letter of credit?

A No, I did not.

Q After you canceled this order, did you ever re-order 150,000 knives?

A No, I did not.

J.A. 802.8, line 22 – 802.9, lines 1-5

Q Did you give Mitsuboshi Cutlery, Inc. permission to go and order them – I mean, to sell them to ATD Marketing after you canceled the order?

A No, I did not.

Q Did you know that ATD Marketing had then made a deal with Mitsuboshi Cutlery to buy the knives directly?

A I was not aware of that until the lawsuit.

Q All right.

A I did not know that until the lawsuit.

J.A. 802.9, lines 21-24

BY MR. BISHOP:

Q Did you follow up that telephone call with a letter saying this is to confirm that we – that we cancel the order?

A I believe I did.

J.A. 810.9, line 19 – 810.10, line 16

BY MR. BISHOP:

Q Now, did you actual – How many knives did you actually buy after you learned that they had made these knives from Mitsuboshi?

A You mean from ATD – I mean, that Mitsuboshi had made by ATD?

Q Had made for ATD.

A Approximately 20, 000 and a few. I don't remember exactly. It's around 20,000 of them. That's all the money I had left.

Q Did you pay for those in advance just like you had in the past with –

A Yes –

Q – irrevocably letters of credit?

A Yes, we did.

Q And did you really need these knives at that point?

A Well, we actually didn't need them, but with the anticipation of, you know, some things that were going

on that we had been working on, we could have used them. And my bank agreed to release approximately $50,000 of my money, so I went ahead and chose to buy the knives from the Mitsuboshi to –

THE COURT: When?

BY MR. BISHOP:

A – help them out.

J.A. 840.8, line 11 – 840.9, line 2

TESTIMONY OF TAKSHITO OKA

Q And your company knew that the knife marked as Plaintiff's Exhibit #85 was patented and trademarked in the United States when it was sold to Admiral Craft, didn't you?

A Yes, we knew it.

Q Okay. And your company knew before you sold this to Admiral Craft that the knife was patented and trademarked in this country?

THE INTERPRETER: His company?

MR. BISHOP: Yes, his company.

BY MR. BISHOP:

A Yes.

Q And do you know Duncan McCoy seated here?

A Yes, of course.

Q And isn't it true that Duncan McCoy never gave permission to sell the knife marked as Plaintiff's Exhibit #85 in the United States? This knife.

A Yes, he – No. No, he hasn't.

J.A. 840.21, line 1 – 840.21, line 6

Q Other people in what country?

A All over the world.

Q Did Mr. McCoy ever give you permission to sell these knives in any country – I mean – excuse me – in any state in the United States?

A No, sir.

J.A. 840.25, line 20 – 840.26, line 1

MR. BISHOP:

Q And isn't it true that you did not ask Mr. McCoy to make any agreement with your company until after your friend in California had told you in this letter that I showed you in your deposition that this [ATD] was in fact a dishonest company, this letter in Japanese, that was attached to your deposition as Exhibit #22.

A Yes, of course. I mean, this is after that.

J.A. 840.21, line 1 – 840.21, line 6

TESTIMONY OF TAKAHISA WATANABE

BY MR. BISHOP:

Q Did you say in Exhibit #70 – and I'll give you my copy – we understand you have a patent on this product; and, therefore, we appreciate very much if you can allow us to sell only your stock to this customer. Did you say that?

A Yeah, It's mentioned on my part.

Q And you knew it had a patent because the patent was stamped on every knife at the cost of my client. Is that not true?

A I know it has a patent.

Q Yes. And did you have permission of Mr. Alex Dorsett or Mr. Duncan McCoy to sell these knives when you said you made the decision to sell these knives to Admiral Craft in New York City?

A Would you repeat the question please?

Q Did you have permission of Alex Dorsett or Duncan McCoy, the co-inventors of this knife, to sell it in New York City when you said you made the decision to sell it to Admiral Craft?

A I repeatedly asked, but no reply.

Q Okay. Well, in other words, you did not have permission?

A It is impossible to get the reply.

Q Okay. It's impossible to get reply. Well, let me – your father sent Exhibit #74 asking for permission on July the 2nd, 1991, didn't he? Right after Exhibit #74.

A Yes, this is a letter that my father wrote to send to Mr. Duncan McCoy.

Q Did Mr. Duncan McCoy ever sign Exhibit #74?

A He didn't sign.

Q Okay. Two days later, didn't you get back from Mr. McCoy a revised agreement dated July the 9th? I'm sorry, seven days later, saying you could resell the knife anywhere but the United States? Did you get this exhibit?

Q Other people in what country?

A All over the world.

Q Did Mr. McCoy ever give you permission to sell these knives in any country – I mean – excuse me – in any state in the United States?

A No, sir.

J.A. 840.25, line 20 – 840.26, line 1

MR. BISHOP:

Q And isn't it true that you did not ask Mr. McCoy to make any agreement with your company until after your friend in California had told you in this letter that I showed you in your deposition that this [ATD] was in fact a dishonest company, this letter in Japanese, that was attached to your deposition as Exhibit #22.

A Yes, of course. I mean, this is after that.

J.A. 901.68, line 19 – 901.69, line 1

Q Okay. But it was actually an agreement, that – a proposal to make an agreement that Mr. Duncan McCoy did not accept.

A I'm sorry, would you repeat to me, please?

Q All right. This exhibit #74 was actually a proposal for an agreement, signed by your father, that was not accepted.

A Whether accepted or not is from Mr. Duncan's side.

Q Okay. But, he didn't sign it, did he?

A He didn't send back this letter with his signature.

MITSUBOSHI CUTLERY, INC.
2200 FLETCHER AVE.
9 W. BUILDING 4 TH. FLOOR
FORT LEE, N.J. 07024 U.S.A.
FAX CALL:(201) 947 9428
DATE
REF. NO.
P NO.
TEL. (201) 947 8819

* * * via fax * * *

Mar. 27, 1992

To: Alex-Duncan Shrimp Chef Inc.

Attn: Mr. Duncan Mccoy

Re: Shrump [sic] Knife

****

You must understand that no solution will be presented itself to flee and hide yourself. Also, it is sowardly [sic] of you to pretend to be out, a businessman must be ashamed of it.

We will be forced to sell the knives that are covered by U.S. Pattent [sic] owned by you, therefor we must ask you to give us your permition [sic] that is authorised [sic] MITSUBOSHI to sell the knives to other people in the United State. [sic]

We should get the following from you.

1. A document from you giving permition [sic] for us to sell the knives to other [sic] in the United State. [sic]

2. A written commitment from you to defend our customer and to indemnify and hold our custmer [sic] harmless from any claim that may be made against our customer by you regarding our customer's sale of these knifes. [sic]

We are looking forward to your prompt response.

Best regards, – T. Oka